中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

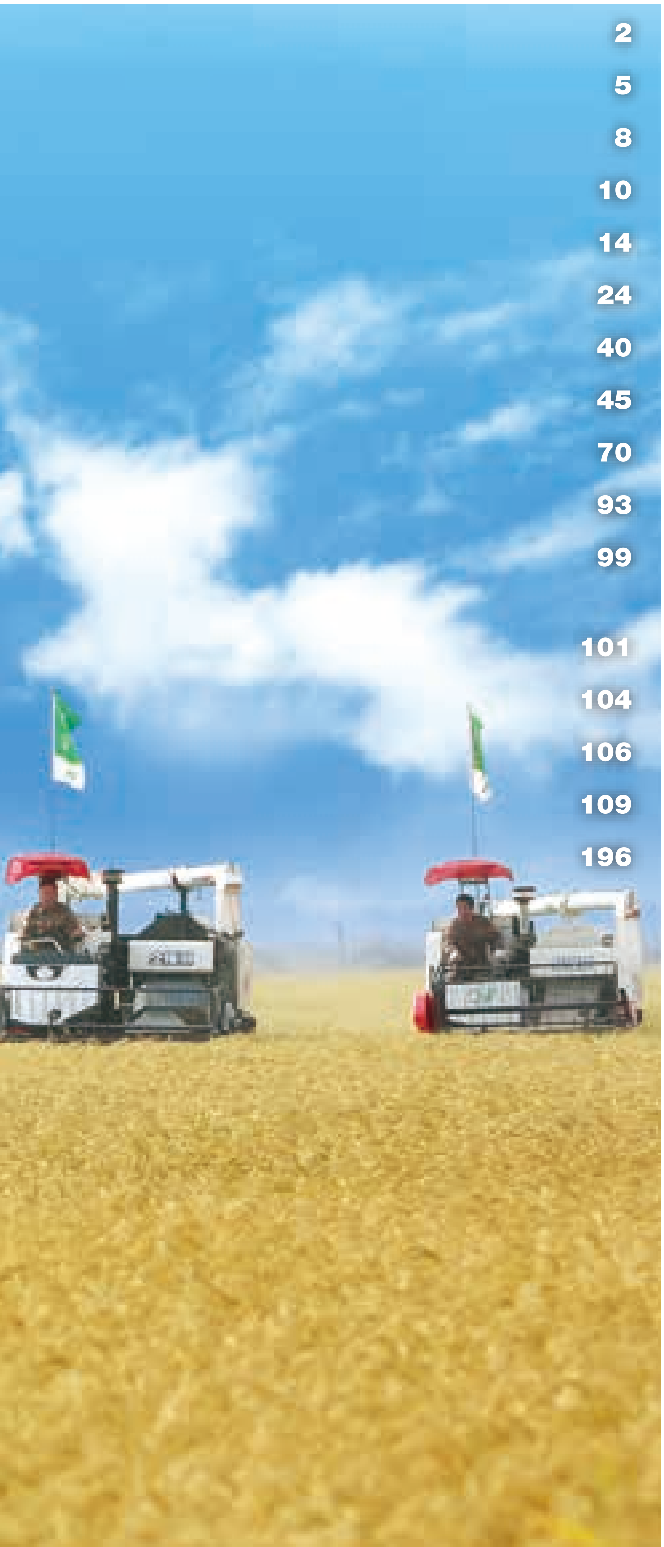
(Incorporated in Bermuda with limited liability) Stock Code: 297

Annual Report
2019

NURTURING CHINA'S AGRICULTURE SECTOR

SINOFERT HOLDINGS LIMITED

Contents



COMPANY PROFILE AND CORPORATE INFORMATION

COMPANY PROFILE

Sinofert Holdings Limited (the "Company") successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries in July 2005, and became a listed company (Stock code: 297) on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It is now a comprehensive fertilizer enterprise centering on distribution services and vertically integrating production and network distribution.

Major businesses of the Company and its subsidiaries (the "Group") include the production, import and export, distribution and retail of fertilizer raw materials and finished products, provision of technological research and development and services relating to the fertilizer business and products, exploration and exploitation of phosphate mine, and production of monocalcium/dicalcium phosphate (MCP/DCP).

Benchmarked by the turnover of 2019, the Group is:

- China's leading fertilizer distribution service provider;
- a large supplier of imported fertilizers in China;
- China's leading fertilizer manufacturer.

The Group's competitive strengths are mainly reflected in:

- its business model of centering on distribution services and integrating production and distribution;
- China's leading distribution network of agricultural inputs;
- its abilities to produce and distribute complete varieties of fertilizer products, including nitrogen, phosphate, potash, compound fertilizers and new fertilizers;
- its strategic alliances with various international suppliers;
- its comprehensive agrichemical service system directly reaching the farmers;
- one of the largest phosphate resource owners in China and one of the largest MCP/DCP manufacturers in Asia.

The Group strives to become China's leading technology-based marketing and service provider of crop nutrition. The Group constantly aspires to achieve sustainable, stable and rapid growth, to deliver value and returns to the shareholders, and to be committed to social responsibilities.

The ultimate controlling shareholder of the Company is Sinochem Group Co., Ltd., which is one of China's earliest qualifiers of Fortune Global 500, and qualified for the 29th time by ranking the 88th in 2019. The second largest shareholder of the Company is Nutrien Ltd., which is the largest potash producer in the world.

CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. QIN Hengde *(Chief Executive Officer)*
Mr. FENG Mingwei (appointed on 25 February 2020)
Mr. Harry YANG

Non-Executive Director
Mr. YANG Lin

Independent Non-Executive Directors
Mr. KO Ming Tung, Edward
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius

Members of Committees

Audit Committee
Mr. TSE Hau Yin, Aloysius *(Chairman)*
Mr. KO Ming Tung, Edward
Mr. LU Xin

Remuneration Committee
Mr. LU Xin *(Chairman)*
Mr. KO Ming Tung, Edward
Mr. TSE Hau Yin, Aloysius
Mr. YANG Lin

Nomination Committee
Mr. KO Ming Tung, Edward *(Chairman)*
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius
Mr. Harry YANG

Corporate Governance Committee
Mr. QIN Hengde *(Chairman)*
Mr. Harry YANG
Ms. CHEUNG Kar Mun, Cindy
Ms. CAO Jing

Chief Financial Officer

Mr. GAO Jian

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Ms. CHEUNG Kar Mun, Cindy

Auditors

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

Legal Adviser

Latham & Watkins LLP

Principal Bankers

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
China Everbright Bank
Bank of Tokyo-Mitsubishi
Rabobank International

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Unit 4705, 47th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Share Registrars and Transfer Offices

Bermuda (Principal office)
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong (Branch)
Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Company Website

www.sinofert.com

Share Listing

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 297

Investor Relations

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FINANCIAL HIGHLIGHTS

(RMB'000 except for sales volume and basic earnings per share)

	2019	2018
Sales volume *(in 10,000 tons)*	**1,151**	1,161
Revenue	**22,950,942**	22,996,328
Gross profit	**2,085,648**	1,912,927
Profit before taxation	**650,325**	451,132
Profit attributable to owners of the Company	**615,767**	460,486
Basic earnings per share *(RMB)*	**0.0877**	0.0656
Return on equity *(Note 1)*	**8.16%**	6.49%
Debt to equity ratio *(Note 2)*	**31.48%**	42.61%

Note 1: Calculated on the basis of profit attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

Note 2: Calculated on the basis of total interest-bearing debt divided by total equity as at the end of the reporting period.

CHAIRMAN'S STATEMENT

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Growing with China's Modern Agriculture

To shareholders,

On behalf of the Board of Directors (the "Board"), I hereby report to all shareholders the annual results of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019.

In 2019, affected by agricultural supply-side reform, intensified regulatory requirements for safety and environment protection as well as the China-US trade friction, China's fertilizer industry was in urgent need of transformation and upgrading, and market competition became increasingly fierce. Facing severe market challenges, the Group was steadfast in carrying out its strategies set forth at the beginning of the year by actively adopting effective measures and grasping market opportunities, and achieved satisfactory results. In 2019, the Group achieved a total sales volume of 11.51 million tons. Sales revenue amounted to RMB23 billion, which was relatively steady compared with the corresponding period in 2018. Profit attributable to owners of the Company was RMB616 million, up by 34% year on year, representing a significant improvement in profitability. Major performance index of the Group remained in good standing, and the Group's credit rating by Fitch Ratings, an international rating agency, was maintained at A-.

Under the guidance of the goal of "strengthening strategic procurement and promoting deep cultivation of industrial customers", the Basic Fertilizers Division steadily increased its strategic procurement volume, maintaining a stable proportion of strategic procurement, and significantly increased its proportion of sales volume to industrial customers. The Fertex e-commerce platform commenced operation, and began to transform its business model from purchase and sale to the provider of platform service. In 2019, sales volume of the Basic Fertilizers Division was 8.94 million tons, relatively steady year on year; profit before taxation amounted to RMB494 million, representing a year-on-year increase of 6%. The Distribution Division continued to make all efforts to accelerate application of advanced technologies, focused on differentiated products and adjusted the product structure, resulting in significant growth in both sales volume and the proportion of differentiated products. The Distribution Division continued to implement the DTS channel building strategy, improved its service capabilities and brand image, expanded its service coverage, and significantly increased the number of strategic stores, channel service centers, and large-scale growers. The layout of production capacity was further improved. The first phase of the new fertilizer project with an annual production capacity of 500,000 tons of Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd. was completed by 90%, and the scheduled output in its trial production reached a completion rate of 100%. The water-soluble fertilizer plant with an annual production capacity of 100,000 tons of Sinochem Agriculture (Xinjiang) Biotech Co., Ltd., located in Aksu of Xinjiang, was successfully put into operation during the year, reaching a production volume of 18,200 tons of water-soluble fertilizer products. In 2019, sales volume of the Distribution Division was 2.34 million tons, up by 5% year on year; profit before taxation amounted to RMB108 million, up by 57% year on year, representing a significant improvement in profitability. Production subsidiaries continued to strengthen HSE management, resulting in safe, continuous and stable operation. Sinochem Jilin Changshan Chemical Co., Ltd. and Sinochem Yunlong Co., Ltd. achieved steady increases in output and sales volume, with a significant effect of energy reduction and efficiency improvement. The old factory of Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling") was steadily closed at the end of October 2019, and relocation for the sake of environmental protection was in steady progress. In 2019, profit before taxation of the production subsidiaries amounted to RMB265 million, representing a significant increase in profit contribution. The crop nutrition R&D team steadily expanded, while the R&D investment was steadily increased, and as a result, the capability of commercialization of research results was significantly improved, and technology reserves continued to be strengthened. The internationally advanced state-of-the-art Linyi R&D Center was put into operation in May 2019. The Group continued to deepen cooperation with external research institutes and enterprises, and achieved remarkable results in research and development. The newly developed compound fertilizers and differentiated basic fertilizer products demonstrated better market competitiveness. In 2019, the sales volume under commercialization of technological achievements reached 535,000 tons, representing a year-on-year increase of 106%.

Despite the challenges of a changing market, the Board of Directors of the Company has always adhered to the goal of maximizing shareholder value, continuously improving corporate governance and optimizing the management system. In accordance with the Corporate Governance Code of the Stock Exchange of Hong Kong Limited, the Company's Board of Directors held four regular meetings in 2019 at which the Company's annual report, interim report, strategic planning and major investment projects were reviewed and approved. Meanwhile, the Board also reviewed and approved other issues such as major investment projects and connected transactions through other means. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Board had all fulfilled their respective duties and rights as entrusted by the Board on such issues as improving internal control, optimizing the remuneration and motivation systems and perfecting the corporate governance structure.

In 2020, China's fertilizer industry still faces the severe situation of excess capacity and oversupply. Industry consolidation and reshuffling will be intensified, with various fertilizer enterprises facing the question of "to be or not to be". Meanwhile, the Chinese government continues to attach great emphasis on agricultural modernization, as expressed in the latest Circular No.1 entitled "Opinion on Doing a Better Job in the Key Work Concerning Agriculture, Rural Areas and Farmers to Achieve Moderate Prosperity in All Respects on Schedule", which was officially announced on 5 February 2020, being the 17th of such documents since the beginning of the new century. This will create important opportunities for the Group's innovative operations and business transformation.

In 2020, the Group will continue to focus on business transformation and upgrading, follow the trend of agricultural supply-side reform and the rapidly changing fertilizer industry, take root in modern agriculture, streamline the operational structure and renovate our business model so as to achieve stable and sustainable growth. The Basic Fertilizers Division will continue to strengthen strategic procurement and marketing systems for agricultural and industrial customers, expand its business scale, and promote transformation of business model from marketing to platform service based on the Fertex e-commerce platform. The Distribution Division will focus on differentiated products, promote crop-oriented upgrades of products, improve the level of digitalization, and further implement the regionalization, horizontal expansion and professionalization of channels. Production subsidiaries will accelerate transformation and upgrading, and promote the "move for better and stronger" relocating work of Sinochem Fuling. The Group will continue to improve product R&D and commercialization capabilities, and push forward the construction of a highly efficient R&D and innovation platform for fertilizers with the Linyi R&D Centre at its core. According to the Company's announcement "Change of Shareholding in the Company" published on 5 January 2020, Syngenta Group Co., Ltd. ("Syngenta Group") or one or more of its affiliate(s) will become the controlling shareholder of the Company. The Group will achieve faster transformation and development under the framework of Syngenta Group. In addition, the Group will consolidate its leading advantage in domestic sales scale, strengthen its position in the supply chain, promote the strategy of differentiated products, and further improve its profitability.

Last but not the least, on behalf of the Board of Directors, I'd like to extend our deep appreciations and sincere thanks to the shareholders of the Company and customers of the Group. We hope to have your continuous attention and support in the future. We expect the management and members and staff of the Company will bear in mind the vision of "In Science We Trust, Combine Action with Knowledge", and work ever harder to continuously make contribution to the development of the Group.

Yang Lin
Non-executive Director

Hong Kong, 26 March 2020

CHRONICLE OF EVENTS

JANUARY 2019

- Sinochem Fertilizer Co., Ltd., a subsidiary of the Group, communicated and negotiated with YARA, a key supplier, on the joint development and expansion of the market in northern China, and agreed the Group to be responsible for exclusive agency in certain northern regions such as Shandong Province.

MARCH 2019

- Sinochem Group Co., Ltd., the Company's ultimate controlling shareholder, and the Ministry of Agriculture and Rural Affairs jointly formulated "Implementation Plan for the Joint Promotion of the Quality Improvement of Farmers' Cooperatives by the General Office of Ministry of Agriculture and Rural Affairs and Sinochem Group Co., Ltd." to give full play to their respective advantages and provide services to farmers' cooperatives.

- The water-soluble fertilizer plant with an annual production capacity of 100,000 tons of Sinochem Agriculture (Xinjiang) Biotech Co., Ltd., a subsidiary of the Group, was successfully put into operation, effectively ensuring the stable supply of water-soluble fertilizer products in Xinjiang and enhancing regional influence.

MAY 2019

- The internationally advanced state-of-the-art Linyi R&D Center of the Group was completed and put into operation, marking another contribution of the Group to the technology-driven transformation of China's agricultural sector.

JUNE 2019

- The Group's Fertex project was commenced in January 2019, and the development of the information module was completed in June 2019. The Fertex e-commerce platform provides first-hand market information and prompt industry news for upstream suppliers and downstream customers, marking the solid first step for the strategic transformation of the basic business.

NOVEMBER 2019

- In Beijing, the Group and the Price Monitoring Center of National Development and Reform Commission have signed a cooperation framework agreement, pursuant to which both parties will start strategic cooperation whereby the e-commerce platform Fertex will perform services such as data provision, price index compilation, market research, and organization of market seminars of designated topics, to the Price Monitoring Center. The two parties' close cooperation, in which the one's strength will complement another's weakness, will form a cooperative relationship of mutual support, synergistic development and mutual benefits and achieve win-wins.

- The Group signed a five-year memorandum of cooperation with Uralkali on potash fertilizers transported by land at the Second China International Import Expo.

- The Group received a special letter for gratitude autographed by Qais O. Abu Daieh, Chief Concierge Officer of the Royal Court of the Hashemite Kingdom of Jordan, which demonstrated that Sinochem potash business team's 18 years of dedication to promoting the friendly economic and trade relations between China and Jordan and the good cooperation with Jordanian Arab Potash Company was fully recognized by the Jordanian government.

OCTOBER 2019

- Sinochem Chongqing Fuling Chemicals Co., Ltd., a subsidiary of the Group, actively fulfilled its social responsibility as a central state-owned enterprise to conduct overall relocation for the sake of environmental protection. Facilities in the old factory were shut down safely and smoothly at the end of October.

AUGUST 2019

- The dicalcium phosphate produced by Sinochem Yunlong Co., Ltd., a subsidiary of the Group, valuing US$239,900, was granted the first Certificate of Origin of the Protocol of Asean-China Free Trade Area (upgrade version) by Sichuan Deyang Customs, pursuant to which the product would be entitled to zero tariff treatment in the importing countries.

- The first phase of the new fertilizer project with an annual production capacity of 500,000 tons of Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd., a subsidiary of the Group, was put into trial operation. This would be the core production base in Central China and South China, providing strategic support for the differentiated transformation and upgrading of compound fertilizers.

DECEMBER 2019

- The Group's Fertex trading platform was officially launched with the functions such as self-operated trading and logistics tripartite matching, and could operate through applets in mobile devices online. The Fertex platform can provide real-time information, convenient trading and effective logistics services online for the industry of agricultural inputs, and form a closed-loop service system.

MANAGEMENT REVIEW AND PROSPECT

MANAGEMENT REVIEW AND PROSPECT

Business Environment

In 2019, the global economic situation reversed from "synchronous recovery" of the previous year to "synchronous deceleration". With the escalation of economic and trade frictions, protectionism was intensifying. Domestically, the Chinese government stepped up counter-cyclical adjustments and actively implemented the stability policy in six aspects. As a result, the overall national economy was maintained within a reasonable range.

In 2019, China continued to deepen the supply-side structural reform in agriculture, adhered to the general policy of giving priority to agriculture and rural development, adjusted and optimized the agricultural structure, accelerated the phase-out of backward production capacity, and further increased industrial concentration. At the same time, China vigorously developed the scarce and high-quality green agricultural products, and promoted the shift from quantity increase to quality improvement in agriculture. The year of 2019 was the decisive period for building a moderately prosperous society in all respects. Winning the battle against poverty would be the top priority for building a moderately prosperous society in all respects. In the past two years, the rural revitalization has been fully launched; the planning system and policy system have been continuously improved; the economic, political, cultural, social, ecological conditions and Party building work in rural areas has been promoted in a coordinated manner.

In 2019, China abolished export tariffs on fertilizers and reduced import value-added tax. With the increasing activity of import and export of fertilizer, the domestic and overseas markets had been more closely linked. The government vigorously promoted supply-side reform as well as fertilizer application reduction and efficiency improvement, and accelerated the adjustment of agricultural planting structure. The planting area of major crops decreased, resulting in oversupply in the fertilizer industry. The market price of major fertilizers continued to decline, posing severe challenges to the operation of the fertilizer industry. In addition, the supervision on safety and environmental protection continued to be strengthened. The explosion accident of a chemical plant triggered a nationwide storm of chemical safety and environmental protection, which would help expedite the elimination of companies with backward production capacity, increase industry concentration, and solve problems such as excess capacity, disorderly market competition

and environmental pollution. Domestic enterprises were accelerating transformation and upgrading, reducing quantity and enhancing quality, expanding their presence in upstream and downstream industrial chains, and providing farmers with new comprehensive agricultural services to achieve sustainable agricultural development and green development of the fertilizer industry.

In order to ensure its leading position in the industry, the Group, under the leadership of the Board of Directors, seized the opportunity of the agricultural supply-side reform and the fast-changing trend of agricultural structure by centering on the Rural Revitalization Strategy, continued to deepen strategic transformation and organizational reform, took root in modern agriculture, optimized its business structure, innovated its business model, and was committed to becoming China's leading technology-based marketing and service provider of crop nutrition.

Financial Highlights

For the year ended 31 December 2019, the Group's revenue reached RMB22,951 million, relatively steady year on year. Profit attributable to owners of the Company was RMB616 million, up by 33.91% year on year, which represented a significant improvement in business performance.

Research and Development

The Group's internationally advanced state-of-the-art Linyi R&D Center was put into operation in May 2019. Based on the new hardware facilities, the level and the efficiency of research and development were significantly improved. New products applying new technologies of crop nutrition reached 535,000 tons in 2019, up by 106% year on year. The Group focused on advancing core masterbatch, microbial inoculant and other projects, and developed core masterbatch products that would be effective in supplementing trace elements, fostering crop growth and improving nutrient use, as well as a series of ecological fertilizer products that could improve the quality of soil and crops. At the same time, the Group focused on solving the problems of easy fixation, difficult absorption and low utilization rate of phosphorus, analyzing the phosphorus absorption mechanism of plant roots, and introduced "Meilinmei", an efficient phosphorus product and carried out demonstration and promotion in Heilongjiang, Jiangsu, Anhui, Hubei and other places, which significantly increased the utilization rate of fertilizers and improved farmers' production and income. In future, the Group will continue to center on the goal of soil improvement and quality upgrades and realize the vision that science and technology create better agriculture by continuously enhancing technological innovation capability.

Manufacturing

In 2019, the Group's subsidiaries continued to strengthen the fundamental work in production operation and to promote special tasks such as intrinsic safety, technological transformation, production process optimization, scientific innovation and automation building, and further explored the potential of existing facilities, carried out cost reduction and efficiency improvement, and enhanced their production and operation efficiency as well as market competitiveness.

Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, produced 723,700 tons of major products such as phosphate and compound fertilizers in 2019. Through in-depth cooperation with the Basic Fertilizers Division in off-take, it carried out technological innovation to achieve cost reduction and efficiency improvement, and enhanced the market competitiveness of products. Sinochem Fuling put health, safety and environment as well as stability of employees in the first place while steadily advancing the overall relocating work. All facilities in the old factory were shut down safely and smoothly at the end of October 2019. At the end of the year, the construction of the first phase of the project with an annual production capacity of 200,000 tons of fine phosphate and supporting new-type specialized fertilizers commenced at the new site. The planned annual comprehensive production capacity of the project was 200,000 tons of high-quality fine phosphate, 700,000 tons of new-type specialized fertilizers and 900,000 tons of ardealite. It would adopt the most advanced and mature technology of semihydrate-dihydrate method to produce high-end fine phosphate and high-end specialized fertilizers, which was expected to put into operation in 2022.

Focusing on the strategy of safe, efficient and stable development, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, continuously strengthened basic management, continued to reduce costs, and optimized the production processes. Due to the development of the synthetic ammonia market, all the finished products could be sold out and the gross profit improved significantly compared with the same period in 2018 and Sinochem Changshan returned to profitability. Sinochem Changshan implemented first-line production management and conducted special equipment protection for each workshop, so that no overhaul was required throughout the year. The core device, pulverized coal pressurized gasification furnace, kept on operating steadily for more than 180 days. Various technical indicators and consumption indicators continued to improve and reached international advanced operating standards as a whole.

Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, focused on the brand goal of "a global production expert of high phosphorous MCP/DCP", put much attention on environmental protection and sustainable development, strengthened production management, strictly controlled product quality, continued to promote differentiated product strategies and expanded into new markets such as South Asia and Africa, and sales volume of MCP/DCP reached 329,200 tons in 2019. In respect of mine construction, the construction of the sinking and driving engineering of capacity continuing project of 600,000 tons per annum in Mozushao was completed, with a significant improvement in mechanization and automation level. By the implementation of ecological environmental protection and restoration, Sinochem Yunlong constructed a preliminary green phosphorus mine, which ensured the sustainable use of resources, and continuously expanded the advantages in phosphate resources.

Basic Fertilizers Operations

The Group continued to implement various strategies, strengthened strategic procurement, built up maintenance system with strategic suppliers, increased the proportion of procurement from strategic suppliers and obtained stable supply of high-quality products. The Group focused on in-depth channel building, and improved marketing service capability. Meanwhile, the Group planned and promoted basic fertilizer products for agriculture to enhance the brand influence and to maintain a leading position in the market. In the context of upgrading of the agricultural inputs industry channels, the Group actively developed Fertex, its e-commerce platform, and gradually transformed its business model from purchase and sale to the provider of platform service by integrating internet and big data with the traditional industries.

Potash Operations: In 2019, sales volume of potash fertilizer was 1.84 million tons, down by 24% over the corresponding period in 2018. Since the domestic supply of potash fertilizer was sufficient, downstream customers determined the procurement volume according to their demand and reduced their inventory scale, resulting in a decrease in the Group's sales volume. The Group strengthened the communication and cooperation with core suppliers, renewed strategic cooperation agreement, and obtained high-quality products. The Group further consolidated its communication and cooperation with Qinghai Salt Lake Industry Co., Ltd., smoothed the linkage between the procurement and sales, and enhanced the influence of domestic potash in regions where the Group was the exclusive agency; improved the core customer system for industrial potash, enhanced marketing service capability and catered to customer needs; improved scientific decision-making mechanism, and formulated differentiated sales strategies; deepened the marketing channel of potash for agriculture, consolidated the core channel system, accelerated to build its proprietary brand, enriched product categories, optimized sources of supply and logistics arrangement, and stabilized the profit of potash for agriculture.

Nitrogen Operations: In 2019, sales volume of nitrogen fertilizer was 3.46 million tons, up by 8% over the corresponding period in 2018. The Group continued to promote the strategy for centralized procurement of nitrogen fertilizer, and eliminated and supplemented certain suppliers in the strategic supplier system to ensure the acquisition of low-cost resources and stable supply capacity. In terms of customer service, the Group adhered to the direct sales strategy of industrial customers, gradually enhanced the closeness of cooperation with core industrial customers, and used the Fertex platform to provide customers with efficient and convenient information services and logistics services, and continuously explored financial services based on supply chain to achieve empowerment for the industrial chain. In terms of new product research and development, the Group focused on high-growth, high-utilization, energy-saving and environmentally-friendly products suitable for China's agricultural planting needs, and conducted effective channel management to enhance customer value.

Phosphate Operations: Sales volume of phosphate fertilizer amounted to 2.32 million tons in 2019, representing a year-on-year increase of 7%. Through scale operation, the Group made significant breakthrough in strategic procurement of phosphate fertilizer and ensured steady supply of high-quality phosphate fertilizer. The Group also provided comprehensive solutions centering on the demand of upstream and downstream customers to achieve stable profit and customer value enhancement through customer base consolidation, value reallocation and precise match of procurement and sales. In addition, the Group introduced "Meilinmei", a new phosphate fertilizer, in response to the government's call for "fertilizer application reduction and efficiency improvement", which was granted the honor of "China's Excellent Fertilizer Brand for Efficiency Improvement". It was widely sold in the domestic market and would lead to healthy development of phosphate fertilizer for efficiency improvement in China.

Distribution Operations

The Group accelerated the development of diversified channels, established strategic partnership with large central state-owned enterprises such as COFCO Corporation and PetroChina Kunlun Hospitality Co., Ltd., increased the sales outlets in its terminal network, and enhanced the marketing and service capability for strategic customers. The Group focused on the enhancement of product technology content and structural optimization, and on crop-oriented product system construction. Sales volume of a number of specialize products, introduced in response to the planting needs of key crops such as corn and rice, significantly increased. In addition, the Group introduced the product package consisting of seeds, fertilizers and pesticides as well as comprehensive technical solutions for planting, expanded the sales of functional products and new types of fertilizers, and continuously strengthened the market competitive advantage.

Compound Fertilizer Operations: Sales volume of compound fertilizers amounted to 2.29 million tons in 2019, representing a year-on-year decrease of 5%. Of which, sales volume of differentiated compound fertilizers reached 0.54 million tons, up by 38% year on year. The Group adhered to the national policy of scientific fertilization and conducted research on the application of slow-release and efficiency-enhancing technologies, soil improvement and other technologies. By closely linking R&D and production, the Group improved the inherent quality of the product through technological transformation and formulation upgrade and introduced various crop-oriented products with high technological content. The Group adhered to the marketing model of technical services, and continuously improved product competitiveness and influence through field trials, fertilization guidance, process tracking, marketing planning and other methods. The Group continuously optimized the layout of compound fertilizer production capacity, and the first phase of the new fertilizer project with an annual production capacity of 500,000 tons located in Jiangling County, Hubei Province, was put into trial operation in August 2019. This project had advantages in cost and logistics and would serve as the Group's main production platform for ecological products. It integrated a series of advanced technologies such as microorganism, utilization of organic waste as resource, high concentration of organic and inorganic compound as well as efficiency improvement of crop nutrition, focused on the production of differentiated products such as organic, inorganic and bacterial fertilizers, and provided a solid guarantee for the rapid growth of the compound fertilizer business.

By developing an improvement plan for the DTS channels, the Group promoted the building of Sinofert flapship stores, and accelerated customer development at the township level, and thus the channel quality and network scale became more competitive. The Group also promoted the pilot work of the intelligent distribution outlets, adopted online and offline marketing methods and effectively empowered precision marketing based on the needs of crops and customers, which improved the operation efficiency of the outlets and increased customer loyalty, and further improved the corporate image and brand influence.

The Group continuously implemented the guidelines from the 19th National Congress of the Communist Party of China as well as the Rural Revitalization Strategy, accelerated the exploration and accumulation of scientific fertilization technology, focused on studying functional products that could improve soil conditions, established technological service stations in villages, and performed its role as a central state-owned enterprise so as to contribute to the sound and sustainable development of modern agriculture in China. In order to implement the program of zero-growth in fertilizer consumption, the Group continued to focus on technology of deep side fertilization, improved fertilizer utilization efficiency, and focused on accumulating crop-oriented nutrition solutions. The Group accelerated the implementation of fertigation and intelligent fertilizer mixing projects, built 350 intelligent fertilizer mixing stations in 2019 and continuously promoted the methodology combining agricultural technology and agronomy to gain an edge in technology-based marketing and service model.

Internal Control and Management

The Group's internal control and risk management system was built according to the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter referred to as "COSO") in the United States, ISO Risk Management Guidelines and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, and was in reference to the "Basic Rules of Corporate Internal Control" and its referencing guidelines issued by five ministries and commissions of China's central government, and the "Guidelines on Compliance Management for State-owned Enterprises (Trial Version)". Under the principle of "high priority, frequent monitoring and diversion as the main solution", the Group paid attention to improving risk and internal control management mechanism in line with the strategic development and integrated with business management, conducted risk identification, assessment and response, and implemented a whole-process risk management, alert and corresponding measures on material risks to serve for value creation for enterprises.

In 2019, in the context of increasing downward pressure on the domestic economy, the China-US trade friction and increased uncertainties arising from geopolitics, along with the strategy and business advancement, the Group continued to strengthen internal control and management, promote its risk management culture, implement hierarchical management, reinforce entity responsibility among all levels, timely give warnings of credit risk and market risk, and actively create a management and control situation of "stable operation and healthy development". The business units provided risk control training to all the personnel, identified risks of new business model, streamlined and improved its management system, optimized business processes, and ensured that the business operations were carried out in a standard and orderly manner. The Group revised performance assessment indicators for management, and guided the business units to enhance their entity awareness of internal control and risk responsibility. Both the Headquarter and the business units continued to strengthen daily inspection, conducted rectification and improvement, further consolidated the fundamental work of internal control, and met the compliance requirements from domestic and overseas regulatory organizations. The above efforts provided a reasonable guarantee for the Group to cope with the changing business environment, serve its strategic transformation and ensure the shareholders' interests, asset safety, business performance improvement and strategic implementation.

Corporate Social Responsibility

The Group actively brought into play its influence and leading status in the industry, directly provided agricultural inputs to the grass-root level and ensured steady supply of products through its comprehensive agricultural inputs distribution and service network covering above 95% of China's arable land during the key period of spring planting and autumn sowing season. Meanwhile, the Group provided comprehensive and differentiated tailored services for large-scale growers and new planting entities to guide farmers to scientific fertilization. The Group integrated high-quality resources and cooperated with international advanced enterprises of agricultural inputs to complement each other, provided farmers with comprehensive training service such as crop nutrition, crop protection and planting techniques, and gradually formed comprehensive crop planting solutions in different regions of the country, so as to help farmers reduce planting cost, improve yield quality and increase income.

Sinochem Fertilizer Co., Ltd., a subsidiary of the Group, deepened its cooperation with the Department of Crop Production, Ministry of Agriculture and the National

Agricultural Technology Extension and Service Center in 2019, focusing on the promotion of projects of fertilizer application reduction and efficiency improvement as well as the use of bio-organic fertilizers in the production of fruits, vegetables and tea instead of chemical fertilizers. During the year, the Group focused on free soil testing service, field guidance, seminars for farmers, and anti-counterfeiting and together with the National Agricultural Technology Extension and Service Center, built pilot demonstration fields and launched training programs for new type of occupational farmers. By the end of 2019, more than 40,000 activities were carried out, including over 9,000 soil testing and formula fertilizer activities, over 2,000 demonstration seminars, over 4,000 anti-counterfeiting activities, which benefited more than 10,000 villages and towns. The company provided customized services for large-scale farms, planting cooperatives and large-scale growers, and its fertilizers covered an area of 3 million mu. Among them, the application of deep side fertilization technology for rice was promoted to increase fertilizer utilization efficiency and save labor costs, and applied in an area of over 1.7 million mu.

In 2019, the Group actively fulfilled its corporate social responsibility, focused on establishing and developing the self-development capability of the poverty-stricken population, and combined poverty alleviation with morale boost and wisdom improvement. It also carried out relevant cultural activities to promote the Rural Revitalization Strategy, deeply participated in the construction of rural civilization, and contributed to the realization of the goal of strong agriculture, beautiful countryside and prosperous farmers. The Group carried out caring activities in Xundian County of Yunnan Province, Bayan County of Heilongjiang Province, Gulang County of Gansu Province, Luntai County of Xinjiang and Lujiang County of Anhui Province, and donated stationeries and student grants equivalent to RMB337,200. In addition, the Group supported the targeted poverty alleviation county, Alu Kerqin Banner of Inner Mongolia, with the amount of poverty alleviation in the form of consumption reaching RMB275,700, and it donated fertilizer worth RMB566,400.

In future, the Group will continue to focus on the requirement of modern agricultural development and strive to serve farmers, center on the goal of soil improvement and quality upgrades, and deepen the cooperation with the scientific institutions, colleges and universities, so as to realize the vision that science and technology create better agriculture through continuously enhancing technological innovation capability.

The Group followed the environmental protection concept of "protecting and improving the production and operation environment and natural resources, preventing environmental pollution and ecological damage and promoting the sustainable development of the Group", and strictly implemented environmental protection management measures, adhered to the basic national policy of protecting the environment, insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, prevented the occurrence of new sources of pollution, continuously reduced waste emission through adopting advanced processes, technologies and equipment, and established a long-term environmental protection mechanism, so as to create harmony between energy utilization and the environment. In 2019, the Group fully achieved its energy-saving and emission reduction goals.

Outlook

In early 2020, the outbreak of the Covid-19 Pandemic resulted in limited logistics capacity in most regions, work resumption delay of upstream enterprises, and supply shortage of raw materials. Offline marketing and services were suspended due to quarantines measures adopted by rural counties, which posed a great challenge to the Group's business operation. The Group considered the safety and health of its employees as most important in combating the Covid-19 Pandemic and shouldered in full the responsibility as a central state-owned enterprise. As at the date of this announcement, there were no employees diagnosed or suspected of being infected; The Group delivered anti-epidemic supplies such as disinfectants and carried out charity activities together with rural counties in combating the Covid-19 Pandemic. The Group's nitrogen, phosphate, potash, basic compound fertilizers and functional compound fertilizers all over the country were put on the market to satisfy the demand from farmers. The Group fully capitalized on the logistics services offered by its e-commerce platform, Fertex, in order to enhance the organizational efficiency of logistics vehicles, ensure smooth delivery of agricultural supplies and lower transportation cost; The Group ceaselessly adopted the model of "online marketing and offline service" by inviting distributors and farmers from multiple channels to participate in online communication, giving guidance on agricultural production activities via short videos, and enhancing service capabilities; The agricultural industry is promptly updated with the latest market information as the Group proactively collects, summarizes and distributes market situation of each region. Each production subsidiary of the Group on the one hand focuses on the prevention and control of the Covid-19 Pandemic, while on the other hand prepares for resumption of work and production. Apart from the Hubei region which was severely affected by the Covid-19 Pandemic, the work resumption rate of each factory in other regions has all increased month-on-month. In closely following the development of the Covid-19 Pandemic, the Group will continue to adjust relevant reactive measures for unremitting prevention and control of the Covid-19 Pandemic. The Group will also cautiously prevent operational risk, proactively pursue preferential benefits such as exemption of tax and social insurance, arrange issuance of short-term commercial paper among banks to secure adequate liquidity of the Group, and promote business transformation by providing fully integrated online and offline services with the use of the new digital marketing system.

Despite the pressure of slowing global economic growth and the potential downward pressure on the growth rate of the domestic economy, the Chinese government will continue to push forward the supply-side reform, consolidate the gains made in the five priority tasks of cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness, and accelerate the clearing of excess capacity in more industries. Under the continued implementation of safety and environmental protection policies, fertilizer companies will also follow the rule of survival for the fittest and enterprises with backward production capacity will be phased out. 2020 is the final year to build a moderately prosperous society in all respects and the 13th Five-Year Plan. It is also a decisive year to achieve the first centenary goal, and the year to win the fight against poverty. The Rural Revitalization Strategy, as a major decision made at the 19th National Congress of the Communist Party of China, has become a key historical mission in building a moderately prosperous society in all respects and a modern socialist country as well as the main approach of implementing policies related to "agriculture, rural areas and farmers" in the new era.

China's modern agriculture is still in the early stage of development. The oversupply situation in the fertilizer industry still persists. With the advancement of China's agricultural supply-side reform, the trend reform of the fertilizer industry is urgent. Controlling consumption, improving efficiency, focusing on R&D and making up for shortcomings have become the direction of transformation and upgrading of the industry. Safety and environmental protection have been continuously strengthened for a long time to promote the clearing of backward production capacity. The products with high added value and high technology will win more markets. The new format of operation in agriculture is accelerating to take shape. New forms of agricultural subjects are emerging rapidly. The number of family farms and farmers' professional cooperatives has grown rapidly, and their proportion in the structure of planting subjects has continued to increase. Professional technology and supporting services are urgently needed in modern planting models. The integration trend of sales terminals for agricultural inputs is accelerating.

As China's leading technology-based marketing and service provider of crop nutrition, the Group will actively shoulder the tasks of promoting the agricultural modernization and the sound development of the fertilizer industry in China, take root in modern agriculture, optimize its business structure and innovate its business model, so as to achieve stable and sustainable growth in business performance. The Basic Fertilizers Division continued to strengthen strategic procurement and the construction of marketing systems for agricultural and industrial customers, expand the business scale, and explore the model transformation from marketing to platform service based on the Fertex platform. The Distribution Division will focus on differentiated products, promote crop-oriented upgrades of products, develop high-tech and high-margin compound fertilizers, specialty fertilizers and crop protection products. improve the level of digitalization, and further implement the regionalization, horizontal expansion and professionalization of channels. The Manufacturing Division will accelerate the transformation and upgrading, do a good job in relocation of Sinochem Fuling for the sake of environmental protection, and move towards advanced manufacturing. Linyi R&D Center of the Group will enhance the commercial R&D capability, and build a high-throughput R&D and innovation platform for fertilizers. According to the Company's announcement "Change of Shareholding in the Company" published on 5 January 2020, Syngenta Group Co., Ltd. ("Syngenta Group") or one or more of its affiliate(s) will become the controlling shareholder of the Company. The Group will achieve faster transformation and development under the framework of Syngenta Group. In addition, the Group will consolidate its leading advantage in domestic sales scale, strengthen its position in the supply chain, promote the strategy of differentiated products, and further improve its profitability. The Group is committed to innovating the business model and integrating high-quality resources so that the investors can get greater returns, and Chinese farmers can get real benefits, and China's agricultural sector can get improvement in competitiveness.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2019, sales volume of the group was 11.51 Million tons, down by 0.86% over the corresponding period in 2018. Revenue was RMB22,951 million, which was relatively steady compared with the corresponding period in 2018.

For the year ended 31 December 2019, gross profit of the group was RMB2,086 million, up by 9.03% over the corresponding period in 2018. Profit attributable to owners of the company was RMB616 million, up by 33.91% Over the corresponding period in 2018, which represented a significant improvement in profitability.

I. OPERATION SCALE

1. Sales volume

For the year ended 31 December 2019, sales volume of the Group was 11.51 million tons, down by 0.86% over the corresponding period in 2018. In 2019, the fertilizer prices generally declined. The Group adhered to the direction of strategic development, promoted professional and lean operations, continued to expand strategic procurement, focused on in-depth channel building, implemented differentiated strategies, and concentrated on building a crop-oriented product system to enhance the product competitiveness.

With the continuous readjustment of crop planting structure, the market demand for fertilizer had changed profoundly. The Group implemented the call for "fertilizer application reduction and efficiency improvement" through innovation, and with the product structure transformed to environmentally-friendly and high-efficiency fertilizers, formed an echelon of differentiated products, and high-end compound fertilizer, differentiated nitrogen fertilizer and new phosphate fertilizer became star products. For the year ended 31 December 2019, sales volume of differentiated products was 763,900 tons, up by 31.87% over the corresponding period in 2018. In particular, sales volume of differentiated compound fertilizer was 538,000 tons, up by 37.70% year on year; sales volume of differentiated nitrogen fertilizer was 169,100 tons, up by 9.38% year on year; sales volume of new phosphate fertilizer was 56,800 tons, up by 67.06% year on year.

2. Revenue

For the year ended 31 December 2019, revenue of the Group amounted to RMB22,951 million, which was relatively steady compared with the corresponding period in 2018. In a market environment of continuous decline in price, the Group enhanced its risk resistance capability through promoting differentiated products with high added value, and the average selling price maintained steady compared with the corresponding period in 2018.

Table 1:

	For the year ended 31 December			
	2019		2018	
	Revenue ***RMB'000***	**As percentage of total revenue**	Revenue *RMB'000*	As percentage of total revenue
Potash fertilizers	**3,842,063**	**16.74%**	4,501,587	19.58%
Nitrogen fertilizers	**5,336,601**	**23.25%**	4,873,967	21.19%
Compound fertilizers	**5,852,289**	**25.50%**	5,891,047	25.62%
Phosphate fertilizers	**5,004,695**	**21.81%**	4,919,815	21.39%
Monocalcium/Dicalcium phosphate (MCP/DCP)	**879,096**	**3.83%**	832,486	3.62%
Others	**2,036,198**	**8.87%**	1,977,426	8.60%
Total	**22,950,942**	**100.00%**	22,996,328	100.00%

3. Revenue and results by segment

The operating segments of the Group are divided into Basic Fertilizers Segment (procurement and sales of straight fertilizers such as nitrogen, phosphate and potash), Distribution Segment (building of distribution channels, procurement and sales of compound fertilizers and new types of fertilizers) and Production Segment (production and sales of fertilizers and MCP/DCP). During the year, the Group has changed the performance assessment method for each reportable segment. Allocation of operating expenses, share of results of associates and joint ventures and also interest income and expenses has been changed based on the new performance assessment method.

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 December 2019 and the year ended 31 December 2018, in which certain comparative amounts in the segment information have been adjusted to conform with current period's presentation:

Table 2:

	For the year ended 31 December 2019				
	Basic Fertilizers	Distribution	Production	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
External revenue	14,589,804	6,243,042	2,118,096	–	22,950,942
Internal revenue	970,700	12,599	1,412,424	(2,395,723)	–
Segment revenue	15,560,504	6,255,641	3,530,520	(2,395,723)	22,950,942
Segment profit	493,717	107,577	265,110	–	866,404

	For the year ended 31 December 2018				
	Basic Fertilizers	Distribution	Production	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
External revenue	14,985,255	5,739,675	2,271,398	–	22,996,328
Internal revenue	487,138	2,978	1,566,390	(2,056,506)	–
Segment revenue	15,472,393	5,742,653	3,837,788	(2,056,506)	22,996,328
Segment profit	466,018	68,695	80,408	–	615,121

Segment profit represents the profit earned by each segment without taking into account unallocated share of results of associates and joint ventures, unallocated expense/income and finance costs in relation to the unallocated interest-bearing borrowings and short-term commercial paper. This is the measure reported to the Group's chief operating decision-maker for the purposes of resource allocation and segment performance assessment.

The external revenue for the year ended 31 December 2019 was relatively stable compared with the corresponding period in 2018, which was attributable to the slight change of both sales volume and the average selling price compared with the corresponding period in 2018.

For the year ended 31 December 2019, the segment profit of the Group was RMB866 million. In particular, the Basic Fertilizers Segment continued to strengthen strategic partnership with core suppliers both at home and abroad, secured constant and steady supply of competitive products, and by promotion of new technology-based products, enhanced the downstream customer stickiness. It made a profit of RMB494 million in 2019, up by 5.94% over the corresponding period in 2018. Its revenue of the differentiated products was RMB472 million in 2019, up by 22.60% over the corresponding period in 2018. The Distribution Segment firmly implemented the technical marketing model, concentrated on building a crop-oriented product system, accelerated to expand diversified channels and continued to optimize the layout of production capacity of compound fertilizers, which led to a profit of RMB108 million in 2019, up by 56.60% over the corresponding period in 2018, and revenue of the differentiated products was RMB1,132 million in 2019, up by 36.55% over the corresponding period in 2018. Major fertilizer production enterprises of the Production Segment continued to strengthen the fundamental work, realized safe, continuous and stable operation, achieved cost reduction and efficiency improvement and enhanced operation efficiency, which led to a profit of RMB265 million, representing a significant improvement compared with a profit of RMB80 million in 2018. In particular, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, made a profit before taxation of RMB104 million, representing a significant increase in profit contribution compared with the losses of RMB52 million in 2018.

II. PROFIT

1. Share of results of joint ventures and associates

Share of results of joint ventures: For the year ended 31 December 2019, the share of results of joint ventures of the Group was basically breakeven, significantly decreased compared with a profit of RMB28 million over the corresponding period of 2018. This was mainly due to the fact that Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") realized a loss in 2019 since the price of its main product, phosphate compound fertilizers, significantly declined as result of the insufficient market demand. In 2019, the Group's share of results of Three Circles-Sinochem was a loss of RMB11 million, significantly decreased by RMB27 million year on year. The Group's share of results of Gansu Wengfu Chemical Co., Ltd. was a profit of RMB11 million, down by 8.33% year on year.

Share of results of associates: For the year ended 31 December 2019, the share of results of associates of the Group was a profit of RMB20 million, up by 11.11% compared with a profit of RMB18 million in 2018. The Group's share of results of Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") was a profit of RMB18 million in 2019, which was relatively steady compared with the corresponding period in 2018.

2. Income tax

For the year ended 31 December 2019, income tax expense of the Group was RMB6 million, of which current income tax expense was RMB23 million and deferred income tax expense was RMB-17 million. In 2019, the taxable profit of subsidiaries of the Group increased over the previous year due to the improvement of business performance. As a result, current income tax expense increased. Sinochem Changshan, a subsidiary of the Group, returned to profitability in 2019. The Group recognized the corresponding deferred income tax assets for the losses that were expected to be recovered in the future based on the prudence principle, and recognized the negative deferred income tax expense.

The subsidiaries of the Group are mainly registered in Mainland China, Macao, Hong Kong and Singapore, respectively, where income tax rates vary. Among them, the tax rate of Mainland China is 25%, the Group's profit derived from Macao is exempted from profit tax, the tax rate of Hong Kong is 16.5%, while the tax rate of Singapore is 17%. The Group strictly complies with the taxation laws of the respective jurisdictions and pays taxes accordingly.

3. Profit attributable to owners of the Company and net profit margin

For the year ended 31 December 2019, profit attributable to owners of the Company was RMB616 million, up by 33.91% compared with a profit of RMB460 million in 2018, which represented a significant improvement in business performance. Faced with tough market competition and great transformation pressure, the Group adhered to the direction of strategic development, took various operational measures, kept on promoting the guideline of cost reduction and efficiency improvement, carried out a series of technical reform as well as scientific and technological innovations, and constantly deepened business transformation.

For the year ended 31 December 2019, the net profit margin of the Group, calculated by dividing profit attributable to owners of the company by revenue, was 2.68%.

III. EXPENSES

For the year ended 31 December 2019, the three categories of expenses amounted to RMB1,634 million, decreased by RMB120 million or 6.84% from RMB1,754 million over the corresponding period in 2018.

Selling and distribution expenses: For the year ended 31 December 2019, selling and distribution expenses amounted to RMB816 million, decreased by RMB90 million or 9.93% from RMB906 million over the corresponding period in 2018. This was mainly attributable to the fact that the proportion of sales by customers' self-delivery increased in 2019, with the intermediate links reduced, resulting in a significant decrease in transportation and handling charges compared with the corresponding period in 2018.

Administrative expenses: For the year ended 31 December 2019, administrative expenses amounted to RMB648 million, increased by RMB13 million or 2.05% from RMB635 million over the corresponding period in 2018. This was mainly due to that the manufacturing enterprises increased their expenditures on safe production and R&D for new products.

Finance costs: For the year ended 31 December 2019, finance costs amounted to RMB170 million, decreased by RMB43 million or 20.19% from RMB213 million over the corresponding period in 2018. This was mainly due to that the average loan interest rate was lower and the financing expenses of discounted bills decreased.

IV. OTHER INCOME AND GAINS

This mainly consisted of interest income, sales of scrapped materials and raw materials. For the year ended 31 December 2019, the Group's other income and gains amounted to RMB236 million, decreased by RMB76 million or 24.36% from RMB312 million over the corresponding period in 2018, which was mainly due to a decrease in interest income.

V. OTHER EXPENSES AND LOSSES

This mainly consisted of asset impairment loss as well as sales of fixed assets, raw materials and scrapped materials. For the year ended 31 December 2019, the Group's other expenses and losses amounted to RMB59 million, decreased by RMB7 million or 10.61% from RMB66 million over the corresponding period in 2018. In 2018, Sinochem Changshan and Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling"), subsidiaries of the Group, completed the renovation and handover of water, power, gas supply and property management facilities required by the local government, and bore the relevant expenses.

VI. INVENTORIES

As at 31 December 2019, the inventories balance of the Group amounted to RMB5,375 million, decreased by RMB179 million or 3.22% from RMB5,554 million as at 31 December 2018. The Group continued to strengthen the coordination between procurement and marketing and controlled the business rhythm, and thus the inventory scale declined. The inventory turnover days in 2019 was 94 days[(Note)], the same as that in the corresponding period of last year.

Note: Calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 360 days.

VII. TRADE AND BILLS RECEIVABLES

As at 31 December 2019, the balance of the Group's trade and bills receivables amounted to RMB406 million, decreased by RMB129 million or 24.11% from RMB535 million as at 31 December 2018, which was mainly due to that the Group tightened the acceptance scope of bank acceptance note, resulting in a decrease of RMB122 million in the balance of bills receivables as at 31 December 2019 compared with that as at 31 December 2018.

The turnover days of the Group's trade and bills receivables was 7 days[(Note)] in 2019, 1 day slower than 6 days[(Note)] in 2018. The Group actively prevented credit risk, and strengthened the review of credit approval and qualifications of the acceptance banks.

Note: Calculated on the basis of average trade and bills receivables balance as at the end of the reporting period divided by revenue, and multiplied by 360 days.

VIII. LOANS TO RELATED PARTIES

The Group's balance of loans to related parties was RMB920 million as at 31 December 2019. Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer"), a subsidiary of the Group, provided an entrusted loan of RMB670 million to Yangmei Pingyuan through Sinochem Finance Co., Ltd. for daily working capital, and a fund of RMB250 million to Sinochem Agriculture Holdings Limited for daily working capital and purchase of fixed assets.

IX. INTERESTS IN JOINT VENTURES

As at 31 December 2019, the balance of the Group's interests in joint ventures amounted to RMB355 million, decreased by RMB59 million or 14.25% from RMB414 million as at 31 December 2018, which was mainly due to the fact that Hainan Zhongsheng Agricultural Technology Co., Ltd. ("Hainan Zhongsheng") had completed the liquidation procedure and asset allocation, and the Group derecognized its investment in Hainan Zhongsheng, resulting in a decrease of RMB59 million in the interests in joint ventures.

X. INTERESTS IN ASSOCIATES

As at 31 December 2019, the balance of the Group's interests in associates amounted to RMB533 million, increased by RMB17 million or 3.29% from RMB516 million as at 31 December 2018. The increase in the amount included the share of profits of Yangmei Pingyuan of RMB18 million for the current period, and the share of results of Guizhou Xinxin Industrial Group Holdings Limited ("Xinxin Group") and Guizhou Xinxin Coal Chemical Co., Ltd. ("Xinxin Coal Chemical") of a total profit of RMB2 million. In 2019, Qingdao Ganghua Logistics Co., Ltd. ("Qingdao Ganghua") had completed the liquidation procedure and asset allocation, and the Group derecognized its investment in Qingdao Ganghua, resulting in a decrease of RMB4 million in the interests in associates.

XI. OTHER EQUITY SECURITIES

As at 31 December 2019, the balance of the Group's other equity securities amounted to RMB391 million, decreased by RMB107 million or 21.49% from RMB498 million as at 31 December 2018, which was mainly due to a reduction of RMB103 million in fair value of the equity interest of Guizhou Kailin (Group) Co., Ltd. held by the Group after evaluation.

XII. OTHER LONG-TERM ASSETS

As at 31 December 2019, the total amount of the Group's other long-term assets amounted to RMB615 million, increased by RMB592 million from RMB23 million as at 31 December 2018, which was mainly due to that the long-term assets such as property, plant and equipment with a carrying amount of RMB562 million to be dismantled after the suspension of production of Sinochem Fuling, a subsidiary of the Group, was transferred into other long-term assets, and relevant expenses incurred during the transitional period of the relocation would be recognized under such items.

XIII. INTEREST-BEARING LIABILITIES

As at 31 December 2019, the Group's interest-bearing liabilities amounted to RMB2,424 million, decreased by RMB661 million or 21.43% from RMB3,085 million as at 31 December 2018. The three-year medium-term note and ten-year corporate bond held by Sinochem Fertilizer, a subsidiary of the Group, were due and redeemable in 2019, and the Group issued four batches of short-term commercial paper to replenish its working capital and repay part of the liabilities. As at 31 December 2019, Sinochem Fertilizer held shore-term commercial paper with a total amount of RMB2.4 billion. Meanwhile, as subsidiaries of the Group adopted new lease standards and recognized lease liabilities, the balance of long-term and short-term lease liabilities was RMB24 million as at 31 December 2019.

XIV. TRADE AND BILLS PAYABLES

As at 31 December 2019, the balance of the Group's trade and bills payables amounted to RMB3,386 million, increased by RMB243 million or 7.73% from RMB3,143 million as at 31 December 2018, which was mainly due to that the Group made full use of the bank acceptance bills as a settlement tool, resulting in the increase in the balance of bills payables.

XV. OTHER FINANCIAL INDICATORS

The Group uses earnings per share and return on equity (ROE) to evaluate profitability, current ratio and debt-to-equity ratio to evaluate solvency, and the trade and bills receivables turnover days and inventory turnover days to evaluate operating capacity (see the inventory and trade and bills receivables part of Management's Discussion and Analysis). By analyzing financial indexes such as profitability, liquidity and capital adequacy as well as operating capacity, financial standing and operating results can be fully summarized and evaluated, the performance of the management can be effectively assessed and the maximum interest of the owners of the Group can be achieved. For the year ended 31 December 2019, the Group's basic earnings per share was RMB0.0877 and return on equity (ROE) was 8.16%, both increased notably compared with those in 2018.

Table 3:

	2019	2018
Profitability		
Earnings per share (RMB) *(Note 1)*	**0.0877**	0.0656
Return on equity *(Note 2)*	**8.16%**	6.49%

Note 1: Calculated based on profit attributable to owners of the Company for the reporting period divided by weighted average number of shares for the reporting period.

Note 2: Calculated based on profit attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

As at 31 December 2019, the Group's current ratio was 1.21, and the debt-to-equity ratio was 31.48%. The Group enjoyed relatively high banking facilities. Its credit rating by Fitch Ratings was maintained at A-, and it had smooth financing channels and diversified fund-raising methods. The Group maintained a stable financial structure through actively taking various operating measures while domestic funding conditions remained tight.

Table 4:

	As at 31 December	
	2019	2018
Solvency		
Current ratio *(Note 1)*	**1.21**	1.17
Debt-to-Equity ratio *(Note 2)*	**31.48%**	42.60%

Note 1: Calculated based on current assets divided by current liabilities as at the end of the reporting period.

Note 2: Calculated based on interest-bearing debt divided by total equity as at the end of the reporting period.

XVI. LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of financing included cash from business operation, bank borrowings and the issue of bonds. All the financial resources were primarily used for the Group's trading and distribution, production, repayment of liabilities and for related capital expenditures.

As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB1,334 million, which was mainly denominated in RMB and US dollar. Structured deposits of the Group amounted to RMB400 million, and time deposits due within one year of the Group amounted to RMB303 million.

Below is the analysis of interest-bearing liabilities of the Group:

Table 5:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Short-term commercial paper	**2,400,000**	–
Other borrowings	**–**	57,500
Lease liabilities	**24,351**	–
Bonds		
Principal amount	**–**	3,030,000
Less: unamortized transaction costs	**–**	(2,115)
Total	**2,424,351**	3,085,385

Table 6:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Carrying amount of interest-bearing liabilities		
Within one year	**2,423,308**	3,085,385
More than one year	**1,043**	–
Total	**2,424,351**	3,085,385

Table 7:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Fixed-rate interest-bearing liabilities	**2,424,351**	3,085,385

As at 31 December 2019, the Group had banking facilities equivalent to RMB26,444 million, including US$1,284 million and RMB17,486 million, respectively. The unutilized banking facilities amounted to RMB22,408 million, including US$1,149 million and RMB14,390 million, respectively.

The Group planned to repay the above loan liability mainly with internal resources.

XVII. OPERATION AND FINANCIAL RISKS

The Group's major operation risks include the following: slowdown in global economic growth, tightened external environment, economic and trade frictions one after another, and intensified protectionism. Due to the supply-side structural reform and the policy of cutting overcapacity, economic growth slowed down quarter by quarter and downward pressure continued to increase. Market competition in the fertilizer industry had been intensified under the background of fertilizer application reduction and efficiency improvement, energy conservation and environmental protection as well as acceleration of industry integration. The Group actively took measures to cope with great changes in the domestic and international environment, and significantly improved its performance compared with the same period of 2018, which boosted its confidence. On one hand, the basic business maintained its business scale, brand status and profitability, and consolidated its market competitiveness; on the other hand, the Group continued to promote strategic transformation and resource integration, adjusted and optimized the production capacity structure, promoted and enhanced the role of technical services as a driving force for innovation, improved operation efficiency, and enhanced the potential for business growth, which would reduce the negative impact of operation risks on the financial performance of the Group.

Besides, the Group's major operation risks include: environmental and social risks, cyber risk and security, risks associated with data fraud or theft.

Environmental and social risks

With the increasingly strict requirements on environmental protection management and more efforts in pollution control from the government, the enterprises were required to attach great importance to ecological civilization and environmental protection. The subsidiaries of the Group, engaged in resource development and fertilizer production, strictly complied with laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China as well as the Water Pollution Prevention and Control Law of the People's Republic of China. By adequate investigation and management on environmental risk sources, they implemented measures to prevent and control pollution of air, surface water, underground water and soil. In addition, they formulated emergency plans for sudden environmental pollution incidents, equipped themselves with necessary emergency disposal materials, prepared emergency drills, and launched emergency plans to limit production for heavy pollution weather. No environmental pollution accident occurred throughout the year of 2019.

Cyber risk and security

With the continuous improvement in information technology of enterprises, the network structure is more and more complicated, and the number of information systems is multiplied. Therefore, the possibility of internet failure and system breakdown is also rapidly increasing. The Group vigorously develops innovative business to enhance its market influence, and meanwhile, the risk from cyberattacks to the information system is also increased.

To comply with the informatization requirements of Sinochem Group Co., Ltd., the Group continuously optimizes the information system to enhance the capability of cyber security protection and emergency response. The Group conducts weekly cyber security inspections and other related work, and accomplishes security protection of the application system as well as the network inside and outside the office according to the protection requirements at different levels so as to minimize cyber risk and avoid cyber security incidents.

Risks associated with data fraud or theft

In order to keep state secrets and trade secrets, the Group has established a relatively complete confidentiality system, including Administrative Measures on Confidentiality and Catalog of Trade Secrets.

The Group takes various promotional and educational measures annually to enhance the employees' awareness of information confidentiality, and urge the employees to be alert. The Group selects certain subsidiaries and assesses their information confidentiality work every year. Through interviews with the employees related with confidentiality, examination on relevant regulations and record documents, reviews on previous confidential documents and on-site observation, the Group conducts investigation on the arrangement of institutions and personnel, establishment of information confidentiality system, secret classification management, information system management, and requires the units under investigation to submit rectification reports within a time limit.

The Group's major financial risks include: market risk, credit risk and liquidity risk.

Market risk

Market risk includes currency risk, interest rate risk and other price risk. Currency risk represents unfavorable change in exchange rate that may have an impact on the Group's financial results and cash flow; interest rate risk represents the unfavorable change in interest rate that may lead to changes in the fair value of fixed rate borrowings and other deposit; and other price risk represents the Group's risk related to the value of equity investments, which mainly derived from investments in equity securities.

Majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar and HK dollar. Due to the presence of a certain scale of import and export business of the Group, the exchange rate fluctuations will have an impact on the cost of import and export prices. The management of the Group adopted prudent foreign exchange forward measures all the time and continued to monitor and control the above risks so as to mitigate the potential unfavorable impact on the Group's financial performance.

Credit risk

The biggest credit risk of the Group is subject to that the counterparties may fail to carry out their obligations with regard to the book value of all types of financial assets recognized and recorded in the consolidated statement of financial position on 31 December 2019. Once the management on credit risk is missing, bad debt losses may influence the normal running of the Group as a result of uncollectible accounts and unavailable inventory after advance payment.

The Group has adequate management procedures, response mechanisms and supervision measures in respect of granting credit line and credit period, collection of overdue accounts and other related aspects. Through credit evaluation, transaction management, process monitoring and disposal of overdue accounts for credit customers, the Group develops risk management strategies and measures to prevent and control the risk, allocates more credit resources to strategic and high-quality core customers/suppliers, and transfers bad debt risks by proper utilization of various risk protection measures so as to ensure the timely follow-up of credit business. Meanwhile, the Group checks major trade loan recoveries at every settlement date every month to ensure adequate bad debt provision of unrecoverable accounts, for which the credit risk rarely occurs.

Liquidity risk

Liquidity risk may lead to inadequate capital to meet the demand of daily working capital and repayment of debt at maturity. Therefore, the Group took the following measures:

Regarding the management of liquidity risk, the management strengthened position management of ready cash, forecasted and strictly executed the fund plan to monitor and keep enough cash and cash equivalents, increased the scale of advance received in sales season to maintain adequate operating cash flow. The management reasonably allocated short and long-term fund demands, and optimized capital structure to meet the demand of working capital and repayment of bonds at maturity.

XVIII.CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no contingent liabilities.

XIX. CAPITAL COMMITMENT

Table 8:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted but not provided for		
– Property, plant and equipment	**278,169**	188,350
Authorized but not contracted for		
– Property, plant and equipment	**1,425,975**	1,211,375
Total	**1,704,144**	1,399,725

In the capital commitment of the Group as at 31 December 2019, the main item was the construction of Sinochem Fuling's project with an annual production capacity of 200,000 tons of fine phosphate and supporting new-type special fertilizer located in Baitao Industrial Park of Fuling, Chongqing. The planned investment in 2020 is RMB1,053 million. According to the relocation investment plan, the total investment of the project is RMB3,292 million, and all required funds will be raised by Sinochem Fuling.

The Group plans to finance the above capital expenditure by internal and external resources, and has no plans for other material investment or capital expenditures.

XX. MATERIAL INVESTMENTS

For the year ended 31 December 2019, the Group had no material investments.

XXI. HUMAN RESOURCES

As at 31 December 2019, the Group had about 5,907 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration. For details of the remuneration policy of the Group, please refer to the Corporate Governance Report of this annual report on page 54.

DIRECTORS

Mr. QIN Hengde – Executive Director and Chief Executive Officer, and Chairman of Corporate Governance Committee

Mr. QIN Hengde, aged 49, was appointed as an Executive Director and Chief Executive Officer of the Company in December 2016, in charge of the Company's overall operation. Currently, he is also the Chairman of the Corporate Governance Committee of the Company. Mr. Qin graduated from the Economic Management Department of East China Institute of Technology with a bachelor's degree in accounting in 1991, from Huazhong University of Science and Technology with a master's degree in industrial engineering in 2002, and obtained an EMBA from China Europe International Business School in 2011. From November 1991 to July 2004, Mr. Qin served in various positions as assistant to the director of the finance department, director of the finance department, and deputy chief accountant of Hubei Hongqi Cable Factory, chief accountant of SDIC Yuanyi Industry Co., Ltd., and deputy general manager of the investment management department of D'Long International Strategic Investment Co., Ltd.. From July 2004 to December 2016, Mr. Qin served successively as the general manager of the business development department, financial controller, vice president, executive vice president and president of Sinochem International Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600500); from November 2016 to January 2017, he was a director and the non-executive chairman of Halcyon Agri Corporation Ltd. (a company listed on the Singapore Stock Exchange); and from September 2008 to November 2016, he served successively as a director and non-executive chairman of GMG Global Ltd.; from December 2016 to April 2019, he was an executive director of China National Seed Group Co., Ltd., a subsidiary company of Sinochem Group.

Mr. Qin has been the deputy chairman of Qinghai Salt Lake Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000792) since May 2017; the non-independent director and the chairman of the board of Win-all Hi-tech Seed Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300087) since January 2019; the president of Syngenta (China) Investment Co., Ltd. since July 2019; and the chairman of the board of Jiangsu Yangnong Chemical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600486) since December 2019. Mr. Qin is a senior accountant, and has rich experience in strategy and investment, merger and acquisition management and financial management.

Mr. FENG Mingwei – Executive Director

Mr. FENG Mingwei, aged 57, was appointed as an Executive Director of the Company on 25 February 2020. Mr. Feng graduated from Beijing University of Iron and Steel Technology in 1987 majoring in automation, and acquired a postgraduate diploma in world economics from Renmin University of China in 1998. In 1984, Mr. Feng joined Sinochem Group, in which he had held positions in the finance department and the representative office in Pakistan. He subsequently served as the sales manager in the business department of SC Polymers Inc. and the deputy general manager of Sinochem Plastic Ltd.. Mr. Feng joined Sinochem Fertilizer Co., Ltd. in December 2001, and had held positions of the deputy general manager of the import department, the general manager of the first fertilizer department, the general manager of the potash fertilizer department and an assistant to the general manager of Sinochem Fertilizer Co., Ltd.. Mr. Feng served as the deputy general manager of the Company from May 2007 to December 2019. Since March 2008, he has been a non-executive director of Qinghai Salt Lake Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000792). Currently, Mr. Feng is also a director of various subsidiaries of the Company.

Mr. Feng has been deeply involved in marketing and team building for 35 years. He has profound understanding of the supply and demand of fertilizers in both domestic and international markets, as well as the market development trend, possesses strong capability and extensive practical experience in strategic procurement, distribution service, logistics and financial support. Mr. Feng is concurrently the vice chairman of the Chinese Society of Plant Nutrition and Fertilizer Science and the executive vice president of Potash Branch of China Inorganic Salts Industry Association, with strong influence in the potash fertilizer industry of the PRC.

Mr. Harry YANG – Executive Director

Mr. Harry YANG, aged 57, was appointed as an Executive Director of the Company in March 2006. He is also a member of the Nomination Committee and the Corporate Governance Committee of the Company. Mr. Yang graduated from the University of International Business and Economics in 1989 with a master's degree in International Business English. Mr. Yang joined Sinochem Group in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co., Ltd., and the director, general manager and vice chairman of the board of US Agri-Chemicals Corporation. From November 2002 to January 2017, Mr. Yang served as Deputy General Manager and General Counsel of the Company. Mr. Yang has served Sinochem Group for more than twenty years. He possesses years of experience in international trade and fertilizer business with a deep understanding of the international fertilizer market.

Mr. YANG Lin – Non-Executive Director

Mr. YANG Lin, aged 56, was appointed as a Non-executive Director of the Company in August 2010. He was appointed as a member of the Remuneration Committee of the Company on 28 March 2018. Mr. Yang graduated from Tianjin University of Commerce in 1985 with a bachelor's degree in Commercial Enterprise Management. He completed a course of Enterprise Management in University of Stuttgart in Germany from 1990 to 1993. Mr. Yang has over ten years' experience in enterprise fund management. Mr. Yang worked at Siemens AG and later as a product manager at Wella AG from 1993 to 1994 in Germany. He joined Sinochem Group in 1994 and had held various positions, including assistant to general manager of the planning and financial department, deputy general manager of the finance department, deputy general manager of the investment and development department, general manager of the fund management department, deputy general accountant of Sinochem Group, and deputy chief financial officer of Sinochem Corporation. Mr. Yang is currently the general accountant and the president of Finance Division of Sinochem Group. He also holds directorships and senior management positions in various subsidiaries and/or affiliates of Sinochem Group. Mr. Yang was a supervisor of China State Construction Engrg. Corp. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601668), from 2007 to 2010. Since October 2009, Mr. Yang has been a non-executive director of Far East Horizon Limited (in which Sinochem Group is a substantial shareholder), whose shares are currently listed on the Main Board of the Stock Exchange (stock code: 3360). Mr. Yang has been a director of Sinochem International Corporation, a subsidiary of Sinochem Group and listed on the Shanghai Stock Exchange (stock code: 600500) since June 2010. Mr. Yang has been a non-executive director and a member of the audit committee of China Jinmao Holdings Group Limited, a subsidiary of Sinochem Group and listed on the Main Board of the Stock Exchange (stock code: 0817), since February 2014. In addition, Mr. Yang has been the chairman of the board of directors of Sinochem Environment Holdings Limited, a subsidiary of Sinochem Group, since November 2018.

Mr. KO Ming Tung, Edward – Independent Non-executive Director and the Chairman of Nomination Committee

Mr. KO Ming Tung, Edward, aged 59, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained an external bachelor of Laws degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 28 years.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Wai Chun Group Holdings Limited, EverChina Int'l Holdings Company Limited, Chia Tai Enterprises International Limited and Sterling Group Holdings Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange in Hong Kong. In the last three years, Mr. Ko was an independent non-executive director of Chinese Energy Holdings Limited and Zioncom Holdings Limited, whose shares are listed on the GEM Board of the Stock Exchange in Hong Kong.

Mr. LU Xin – Independent Non-executive Director and the Chairman of Remuneration Committee

Mr. LU Xin, aged 56, was appointed as an Independent Non-executive Director of the Company in February 2015. He is also the Chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Lu graduated from Dongbei University of Finance and Economics in China in 1987 with a bachelor's degree in Economics, and has been awarded a master of business administration by the University of South Australia in 2006. Mr. Lu worked for the Ministry of Finance of the People's Republic of China from 1987 to 1992, and China Trust and Investment Corporation for Economic Development from 1992 to 1995. Since 1995, Mr. Lu has successively served as the assistant general manager, deputy general manager and managing director of Golden Sino (Holdings) Limited. From 2001 to 2004, Mr. Lu was the executive director and deputy chairman of the Board and the managing director of the Company (formerly known as Wah Tak Fung Holdings Limited). From 2008 to 2010, Mr. Lu was an independent non-executive director of Sino Resources Group Limited, and currently he is an investment consultant of Wai Chun Group Holdings Limited, both companies are listed on the Main Board of the Stock Exchange in Hong Kong. At present, Mr. Lu Xin is also the chairman of the board of directors of World International Consulting Limited. Mr. Lu has over 27 years of experience in finance, investment and corporate management with extensive knowledge about economic activities of Hong Kong and Mainland China.

Mr. TSE Hau Yin, Aloysius – Independent Non-executive Director and the Chairman of Audit Committee

Mr. TSE Hau Yin, Aloysius, aged 72, was appointed as an Independent Non-executive Director of the Company in June 2007. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tse is a graduate of the University of Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is the past president and a former member of the Audit Committee of the HKICPA. Mr. Tse joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is also a member of the International Advisory Council of The People's Municipal Government of Wuhan.

Other than the directorship in the Company, currently Mr. Tse is also an independent non-executive director of CNOOC Limited, China Telecom Corporation Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are companies whose shares are listed on the Stock Exchange in Hong Kong. In addition to the above, Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly-owned subsidiary of China Construction Bank Corporation whose shares are listed on the Stock Exchange in Hong Kong and an independent non-executive director of OCBC Wing Hang Bank Limited (formerly known as Wing Hang Bank Limited), which was listed on the Main Board of the Stock Exchange in Hong Kong until October 2014. From 2004 to 2010, Mr. Tse was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of the Stock Exchange in Hong Kong. From May 2005 to December 2016, he was an independent non-executive director of Daohe Global Group Limited, which is listed on the Main Board of the Stock Exchange in Hong Kong.

SENIOR MANAGEMENT

Mr. GAO Jian – Chief Financial Officer

Mr. GAO Jian, aged 49, is the Chief Financial Officer of the Company. Mr. Gao graduated from Chongqing Institute of Industrial Management in 1993 with a bachelor's degree and obtained a master's degree in business administration from Renmin University of China in 2002. Mr. Gao worked in Wuzhou Engineering Design and Research Institute from 1993 to 1999. In 1999, he joined China Chemical Import and Export Corporation and had worked in investment department and finance department. Mr. Gao had previously acted as deputy general manager of the finance department in Qinghai Salt Lake Industry Group Co., Ltd. and deputy director (a temporary position) in the Working Bureau of Supervisory Panel of the State-owned Assets Supervision and Administration Commission of the State Council. In June 2008, Mr. Gao joined Sinochem Lantian Co., Ltd. as the chief financial officer. Mr. Gao joined the Company in July 2011 and was appointed the present position.

Mr. MAO Feng – Deputy General Manager

Mr. MAO Feng, aged 48, is the Deputy General Manager of the Company. Mr. Mao graduated from Tianjin Institute of Foreign Trade with a bachelor's degree in international trade in July 1994. From 1994 to 2007, Mr. Mao served in China Machinery Import and Export Corporation and China International Tendering Company under China General Technology Group. In August 2007, Mr. Mao joined Sinochem Group, and served as deputy general manager of the railway business department and deputy general manager of the strategic market department of Sinochem International Tendering Co., Ltd., assistant to the general manager of the investment development department and deputy general manager of the strategic planning department of Sinochem Group. Mr. Mao joined the Company in January 2017 and was appointed the present position.

Mr. MA Yue – Deputy General Manager

Mr. MA Yue, aged 40, is the Deputy General Manager of the Company. Mr. Ma graduated from Beijing Jiaotong University in July 2001 with a bachelor's degree in management science & engineering and from Tsinghua University with an EMBA in April 2013. Mr. Ma joined Sinochem Fertilizer Co., Ltd. in July 2001, and successively served as general managers of Anhui Branch, Henan Branch, Hainan Branch, distribution & management department, network and logistics management department, network development department, network business department, and Jiangsu Branch, and as assistant to the general manager of Sinochem Fertilizer Co., Ltd.. Mr. Ma promoted to the present position in January 2017.

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited (the "Company") and its board of directors (the "Board") are committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practices on corporate governance, and compliance with the applicable corporate governance standards contained in relevant codes as set out in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code") sets out the principles of good corporate governance, and two levels of recommendations: (a) code provisions; and (b) recommended best practices. It also includes the mandatory disclosure requirements and recommended disclosures in respect of corporate governance for listed companies. For the year ended 31 December 2019 and up to the date of this report, the Company has complied with the applicable code provisions set out in the Corporate Governance Code, except for the deviations from the code provisions A.1.7 and E.1.2 as described below.

The code provision A.1.7 stipulates that, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. During the year and up to the date of this report, the Board approved certain connected transaction and continuing connected transactions by circulation of written resolutions in lieu of physical board meetings, for which a Director who is nominated by the ultimate controlling or substantial shareholders of the Company, was regarded as having material interests therein. As the Directors of the Company are living and working far apart, adoption of written resolutions in lieu of physical board meetings allows the Board to make a decision relatively quicker in response to the rapid change in the fertilizer markets. Before formal execution of the written resolutions, the Directors (including the independent non-executive directors) had discussed the matters via emails and made amendments to the transactions as appropriate.

The code provision E.1.2 provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. On 11 January 2019, Mr. Zhang Wei, the then Chairman of the Board resigned as a Non-executive Director and Chairman of the Board of the Company. Following Mr. Zhang's resignation, Mr. Yang Lin has been authorized to assume the role and duties of the Chairman until a new Chairman of the Board is appointed. In the annual general meeting of the Company held on 18 June 2019 (the "2019 AGM"), Mr. Yang Lin did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2019 AGM, Mr. Yang Lin authorized and the Directors attending the meeting elected Mr. Harry Yang, the Executive Director of the Company, to chair the meeting. Respective chairmen or representatives of the audit, remuneration, nomination and corporate governance committee of the Company were present at the 2019 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors, and the Directors have confirmed that they had complied with the required standards set out in the Model Code for the year under review.

The Company has also adopted written guidelines on no less exacting terms than the Model Code for relevant employees. During the year, no incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Board of Directors of the Company directs, monitors and supervises the management, business, strategic planning and financial performance of the Company and its subsidiaries, and the Board considers that enhancing value for shareholders is a duty of the Directors.

Board composition

As at 31 December 2019, the Board consisted of six members, including two Executive Directors, namely Mr. QIN Hengde and Mr. Harry YANG, one Non-executive Director, Mr. YANG Lin, and three Independent Non-executive Directors, namely Mr. KO Ming Tung, Edward, Mr. LU Xin and Mr. TSE Hau Yin, Aloysius.

During the year and up to 11 January 2019, Mr. Zhang Wei was a Non-executive Director and Chairman of the Board of the Company. On 11 January 2019, Mr. Zhang Wei tendered his resignation as a Non-executive Director and Chairman of the Board of the Company due to adjustment of work arrangements. Following Mr. Zhang's resignation, Mr. Yang Lin has been authorized to assume the role and duties of the Chairman during the period commencing from 11 January 2019 and ending on the date when a new Chairman of the Board is appointed. On 25 February 2020, Mr. Feng Mingwei was appointed as an Executive Director of the Company.

The biographical details of the current Directors are set out on pages 40 to 43 of this annual report.

Executive Directors

All of the Executive Directors possess the qualification and experiences in their respective areas of responsibility, have extensive experience in corporate management and operations, and have good knowledge on the operations and structure of the Group. Under the leadership of the Chairman of the Board, the Executive Directors are able to maintain the effective management of the Group's business.

Non-executive Director

The Non-executive Director of the Company is experienced and professional in the relevant business of the Group, who provide professional opinion and analysis to the Board effectively.

Independent Non-executive Directors

All of the three Independent Non-executive Directors are experienced professionals with different expertise in accounting, finance and legal aspects. Their mix of skills and experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board and safeguard the interests of the shareholders in general and the Company as a whole.

Appointment, re-election and removal of Directors

The current term of office for the Executive Directors and the Non-executive Directors (including the Independent Non-executive Directors) of the Company is fixed for three years. Pursuant to the bye-laws of the Company, every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years, and shall be subject to re-election by shareholders at the annual general meeting.

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation by the Nomination Committee of the Company. Directors who are appointed by the Board shall be subject to election by shareholders at the first general meeting after their appointment.

Independence of the Board

The Board has received from each of the Independent Non-executive Directors a written annual confirmation of their independence in accordance with Rule 3.13 of the Listing Rules, and believed that their independence satisfied the guidelines as stipulated in the Listing Rules up to the date of this report.

The Board has noticed that Mr. Ko Ming Tung, Edward, Independent Non-executive Director of the Company, has served the Board for more than 19 years and Mr. Tse Hau Yin Aloysius, Independent Non-executive Director of the Company, has served the Board for more than 12 years. Pursuant to code provision A.4.3 of the Corporate Governance Code, inter alia, having served the company for more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. In this regard, the re-appointment of each of Mr. Ko and Mr. Tse as Independent Non-executive Director of the Company were approved by shareholders in separate resolution at the annual general meeting of the Company held on 7 June 2018. In assessing the independence of Mr. Ko and Mr. Tse, the Board took into account the fact that Mr. Ko and Mr. Tse have not engaged in any executive management of the Group, and have demonstrated their ability to provide independent view to the Company's matters during their terms of office with the Company. The Board believes that Mr. Ko and Mr. Tse are independent with the Company and have complied with the independence requirements of Rule 3.13 of the Listing Rules.

For the year ended 31 December 2019 and within the duration of service with the Company of the respective Directors, Mr. Zhang Wei and Mr. Yang Lin each held directorships or other positions in Sinochem Group (the ultimate controlling shareholder of the Company).

Save as described above, there is no other relationship among the members of the Board and, in particular, between the Chairman and the Chief Executive Officer.

Division of the responsibilities between the Board of Directors and the management

The Board of Directors is responsible for reviewing and approving the Company's strategy management, financial management, investment management, asset disposal and other matters, implementing the resolutions passed in the general meetings and supervising the management team; and the management team under the leadership of the Chief Executive Officer is responsible for formulating the strategic plan and operation goals of the Company, compiling and executing the annual budget and setting out annual investment policies, etc..

Responsibilities of Chairman and Chief Executive Officer

The Board has authorized the management team to handle daily operational matters under the instruction and supervision of the Chief Executive Officer. Mr. Zhang Wei as the Chairman of the Board during the period from 1 January 2019 to 11 January 2019, and Mr. Yang Lin who assumed the role and duties of the Chairman since 11 January 2019, was responsible to lead and ensure the effective management of the Board. Mr. Qin Hengde as the Chief Executive Officer, was responsible for the effective implementation of the policies formulated by the Board and the management of the businesses and operations of the Group.

During the year, Mr. Yang Lin met once with all Independent Non-executive Directors of the Company without Executive Directors' present and discussed about the overall business development of the Company and the effectiveness of the management team of the Company.

Major duties of the Board

The Board is primarily responsible for the following matters:

1. to approve and monitor the strategic plans of the Group;

2. to review the financial performance and results of the Group;

3. to review the dividend policy of the Company;

4. to approve and monitor material acquisitions, investment, asset transactions and any other significant expenditures of the Group; and

5. to supervise internal risk management policy of the Group.

The Board is also responsible for overseeing the preparation of the annual consolidated financial statements which ensures a true and fair view of the state of affairs and of the results and cash flows of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2019, the Board have:

1. approved the adoption of the applicable Hong Kong Financial Reporting Standards;

2. selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;

3. made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and

4. ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

The Board recognizes that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensive vision of the performance, position and prospects of the Group in all corporate communications.

Continuous professional development

The Company considers continuous professional development is important for Directors in maintaining up-to-date knowledge on the business operations of the Company as well as the regulations in the capital market. In this regard, the Company provided professional training to Directors, including a formal and comprehensive induction programme to newly appointed Directors for the purpose of giving an overview of the business and operations of the Group and a proper understanding of his/her responsibilities and obligations under the Listing Rules, Corporate Governance Code and applicable laws and regulatory requirements; and also regular updates on new issues and/or changes in the regulatory environments.

During the year, the Company arranged and funded a seminar, which was conducted by a professional legal firm, on the recent developments on the regulatory rules for listed companies in Hong Kong. All Directors have attended the seminar. In addition, during the year ended 31 December 2019, the Directors participated in continuous professional development to develop and refresh their knowledge and skills, which ensure that their contributions to the Board remain informed and relevant. Listed below are certain seminars or forums participated by the Directors during the year:

Name of Director	Seminar/Forum	Organizer
Yang Lin	財政部全國會計領軍人才培養工程特殊支援計劃專題講座	財政部上海國家會計學院
	第二屆中國國際進口博覽會貿易論壇	商務部和上海市人民政府
Qin Hengde	Duties of Directors and Role and Function of Board Committees	Stock Exchange
	Risk Management and Internal Control, ESG Reporting	Stock Exchange
	Corporate Governance – Director and Company Secretary's Roles	Stock Exchange
	Directors' Responsibilities at IPOs	Stock Exchange
Harry Yang	Morgan Stanley Fifth Annual China Summit	Morgan Stanley
	BAML China Conference 2019	Bank of America Merrill Lynch
	中信證券2019年資本市場論壇	CITIC Securities
	ESG Governance and Reporting	Stock Exchange
Ko Ming Tung, Edward	New Trading Suspension Rule: A Double-Edged Sword	Deloitte Touche Tohmatsu
	The KPMG INED Forums	KPMG
Lu Xin	全球經濟展望和主要經濟體發展現狀	The University of Hong Kong
	INEDs' Role in Corporate Governance	Stock Exchange
	ESG Governance and Reporting	Stock Exchange
Tse Hau Yin, Aloysius	Cyber Risk Quantification-What every Board should know and understand	PwC
	The KPMG INED Forums	KPMG
	Climate Risk and Climate Finance – Challenges and Opportunities	Hong Kong Monetary Authority and The Hong Kong Institute of Bankers
	New Trading Suspension Rule: A Double-Edged Sword	Deloitte Touche Tomatsu
	中國境外上市公司企業規管高級研修班2019	The Hong Kong Institute of Chartered Secretaries

In addition, the Company provided regular updates to all Directors in respect of the business and operations of the Group through monthly reports; and of the changes in Listing Rules, Corporate Governance Code and related regulatory requirements, if any.

Board meetings

For the year ended 31 December 2019, the Board held four meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, certain continuing connected transactions and other significant matters. The Board had also approved certain proposals in respect of connected transactions, continuing connected transactions, significant business and financing matters, by circulation of written resolutions during the year. The attendance rates of the members of the Board at the aforesaid Board meetings during the year ended 31 December 2019 are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)*	4/4
Mr. Harry Yang	4/4
Non-executive Director	
Mr. Zhang Wei *(former Chairman)* *(Note)*	0/0
Mr. Yang Lin	4/4
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Note: Mr. Zhang Wei resigned as Chairman of the Board and Non-executive Director of the Company on 11 January 2019.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

An audit committee was established by the Board in 1999 (the "Audit Committee") with its written terms of reference. The Audit Committee currently comprises three Independent Non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Tse Hau Yin, Aloysius and the other members are Mr. Ko Ming Tung, Edward and Mr. Lu Xin.

The latest terms of reference of the Audit Committee, which have been revised in accordance with the Corporate Governance Code are available on the Company's website. The current terms of reference of the Audit Committee are summarized in the following aspects, including but not limited to (1) monitoring the relationship with the external auditors including but not limited to reviewing and monitoring the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards; (2) reviewing the Group's financial information; and (3) overseeing the Group's financial reporting system, risk management and internal control procedures.

The Audit Committee held four meetings during the year ended 31 December 2019. The Chief Financial Officer or the General Manager of Finance of the Company and the external auditors also attended the meetings. The attendance rates of each of the committee members at these meetings are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Tse Hau Yin, Aloysius *(Chairman)*	4/4
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4

The Audit Committee had completed the following work during the year:

1. reviewed and commented on the Company's annual and interim reports (including the consolidated financial statements contained therein), and result announcements, and recommended the same for the Board's approval;

2. reviewed and discussed significant issues identified in the preparation of the consolidated financial statements, including those related to accounting records, financial report and internal control system;

3. reviewed the independence of the external auditors, considered and made recommendation to the Board on the re-appointment of external auditors and the corresponding audit fee for the year ended 31 December 2019;

4. discussed the audit plan, scope and responsibility before the commencement of work with the external auditors;

5. reviewed and evaluated annually the effectiveness of the Company's corporate governance practices and the Group's financial control (including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting functions), internal control and risk management systems, procedures and arrangements to enable employees to raise concerns about possible improprieties in financial reporting, internal control or other matters, and made sufficient communication with the management on related matters. The results of such review were satisfactory;

6. discussed the Group's internal audit plan and the related work with the Internal Audit Department (which is responsible for the internal audit functions of the Company) and are satisfied with their report and findings;

7. discussed the Group's risk management plan and the related work with the Risk Management personnel;

8. met with the external auditors without the management's participation;

9. reviewed the continuing connected transactions conducted by the Group; and

10. reviewed the existing terms of reference of the Audit Committee.

Remuneration Committee

A remuneration committee was established by the Board in August 2005 (the "Remuneration Committee") with its written terms of reference. The Remuneration Committee currently comprises four members. The Chairman of the Remuneration Committee is Mr. Lu Xin, and the other members are Mr. Ko Ming Tung, Edward, Mr. Tse Hau Yin, Aloysius and Mr. Yang Lin. Except for Mr. Yang Lin who is a Non-executive Director, the remaining three members are all Independent Non-executive Directors.

The latest terms of reference of the Remuneration Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Remuneration Committee are summarized in the following aspects, including but not limited to (1) making recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (2) reviewing and approving the Executive Directors' and senior management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board; and (3) determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and making recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee met once during the year ended 31 December 2019. The Remuneration Committee had also approved or passed a few proposals by circulation of written resolutions during the year, and had reported the relevant proposals to the Board for review or approval, where applicable, in subsequent communications to the Board. The attendance rates of each of the committee members at the aforesaid meeting during the year ended 31 December 2019 are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Lu Xin (Chairman)	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Mr. Yang Lin	1/1

The Remuneration Committee had completed the following work during the year:

1. evaluated the performance of Executive Directors and senior management and approved the proposal on performance bonus and board reward bonus for Executive Directors and senior management for the year 2018, based on their achievements in various performance and/or strategic targets established in the year before;

2. approved the remuneration package (including cash compensation and bonus scheme) and other major benefits of Executive Directors and senior management for the year 2019;

3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2019;

4. reviewed and amended the remuneration policy of the Company in respect of special reward for Executive Directors and senior management of the Company, and subsequently approved special rewards to certain senior management in appreciation to their prominent contribution to the achievement of Growth Award received by the Company, which was granted by Sinochem Group;

5. approved the appointment of remuneration consultant; and

6. reviewed the existing terms of reference of the Remuneration Committee.

Remuneration policy of the Group

The key components of the Group's remuneration package include basic salary, and where applicable, other allowances, annual performance bonus and other rewards, mandatory provident funds and state-managed retirement benefits scheme. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as to achieve a balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with the importance of duties. The higher the importance of duties, the higher the ratio of incentive bonus to total remuneration. This can help the Group to recruit, retain and motivate high-calibre employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience and performance of the Directors. They include performance bonus primarily determined based on the results of the Group and other rewards granted based on specific circumstances. The Remuneration Committee performs regular review on the emoluments of the Directors. No Director, or any of his/her associates and executives, is involved in deciding his/her own emoluments.

The Group reviews its remuneration policy annually and engages professional consultant, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2019, the Group had about 5,907 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also values the importance of training and career development of employees. In 2019, the Group provided 800 person-times or 12,000 hours of training (any training organized by the subsidiaries has not been included in these numbers). The training courses covered areas such as industrial development, strategy implementation, leadership enhancement, marketing management, operation and management, laws and regulations, finance, human resource management, safe production and general working skills. These training will further improve the management skills and professional standards of the management of the Group and enhance the overall quality of the employees to cater to the Group's rapid developments, and improve the competitiveness of the Group.

Other than those mentioned above, the Company had also arranged directors & officers' liability insurance which provides comprehensive protection for the Group's business by covering losses in relation to investigations or claims against the Company's Directors and the Group's officers.

Nomination Committee

A nomination committee was established by the Board in August 2005 (the "Nomination Committee") with its written terms of reference. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Mr. Lu Xin, Mr. Tse Hau Yin, Aloysius and Mr. Harry Yang. Except for Mr. Harry Yang who is an Executive Director, the remaining three members are all Independent Non-executive Directors.

The latest terms of reference of the Nomination Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Nomination Committee are summarized in the following aspects, including but not limited to (1) formulating nomination policy for the Board's consideration and implementing the Board's approved nomination policy; (2) determining the criteria to select and recommend candidates for directorship; (3) reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (4) identifying individuals suitably qualified to become Board members for Board's consideration on the selection of individuals nominated for directorships; and (5) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

The Nomination Committee met once during the year ended 31 December 2019. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward *(Chairman)*	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Executive Director	
Mr. Harry Yang	1/1

The Nomination Committee had completed the following work during the year:

1. reviewed the structure, size and composition of the Board, discussed the succession planning for the Chairman of the Board, and made suggestions to the Board;

2. reviewed the terms of appointment of Directors and made recommendations to the Board;

3. nominated the Directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting;

4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board.; and

5. reviewed the existing terms of reference of the Nomination Committee.

Policy in respect of nomination of directors of the Company

The Board adopted a nomination policy on 27 March 2013 for the purpose of setting out the procedures for shareholders or Directors to propose a person for election as a Director of the Company, and to set out the general guidelines and procedures for the members of the Nomination Committee in the nominee identification, evaluation and recommendation processes.

Bye-law 88 of the Company provides that no person, other than a Director retiring at the meeting, shall be eligible for election as a Director at any general meeting unless:

1. he/she is recommended by the Directors; or

2. a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Head Office *(Note 1)* or at the Registration Office *(Note 2)*, provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Note 1: "Head Office" means the principal place of business of the Company in Hong Kong.

Note 2: "Registration Office" means the Company's branch share registrar and transfer office in Hong Kong.

Upon receipt of the notices as mentioned above, the Company shall inform the Nomination Committee as soon as practicable. The Nomination Committee shall review the profile of the candidate(s) and assess the suitability of the candidate(s) for the Board's consideration and recommendation to the shareholders for consideration. In the selection process, the Nomination Committee makes reference to the criteria including, inter alia:

1. reputation for integrity, accomplishment and experience in the relevant business sector;

2. professional and educational background;

3. potential time commitment for the Board and/or committee responsibilities; and

4. objective criteria with due regard for the benefits of diversity on the Board.

As a good corporate governance practice, every Director or Nomination Committee member shall abstain from voting on the proposition of himself/herself for election by shareholders.

To enable shareholders to make an informed decision on their election at a general meeting, the names of all candidates recommended by the Nomination Committee and the Board to be elected or re-elected as a Director in general meeting, together with his/her biographical details as set out in Rule 13.51(2) of the Listing Rules, are set out in a circular to be sent to shareholders prior to the meeting.

Board diversity policy of the Company

The Board adopted a board diversity policy on 27 March 2013 for the purpose of setting out the approach to achieve diversity on the Board. The policy states that, in designing the Board's composition, board diversity has been considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on the candidates' talents. Candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives mentioned above. The final decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the year, the Nomination Committee had reviewed the Board composition of the Company and considered that the current Board's composition is diversified in terms of age, years of service, position, skills and knowledge. The table below shows the headcount analysis on the diversity of the current Board members during the year ended 31 December 2019:

	Years of Service			
Age	Less than 5 years	6 to 10 years	Over 10 years	Total
Age 45-54	1	–	–	1
Age 55-64	1	1	2	4
Age 65-74	–	–	1	1
Total	2	1	3	6

	Skills and Knowledge			
Position	Business and Corporate Management	Finance and Accounting Management	Legal Expertise	Total
Executive Director	2	–	–	2
Non-executive Director	–	1	–	1
Independent Non-executive Director	–	2	1	3
Total	2	3	1	6

Corporate Governance Committee

A corporate governance committee was established by the Board on 22 March 2012 (the "Corporate Governance Committee") with its written terms of reference. The Corporate Governance Committee currently comprises four members. The Chairman of the Corporate Governance Committee is Mr. Qin Hengde (Executive Director and Chief Executive Officer), and the other members of the Corporate Governance Committee are Mr. Harry Yang (Executive Director), Ms. Cheung Kar Mun, Cindy (Company Secretary) and Ms. Cao Jing (Legal Director).

The terms of reference of the Corporate Governance Committee are available on the Company's website. The current terms of reference of the Corporate Governance Committee are summarized in the following aspects, including but not limited to (1) developing and reviewing the corporate governance principles and policies of the Company and making recommendations to the Board, and implementing the corporate governance policies laid down by the Board; (2) reviewing and monitoring the corporate governance policies and practices to ensure compliance with legal and regulatory requirements; (3) developing, reviewing and monitoring the code of conduct and guidelines in relation to corporate governance matters applicable to the Company's Directors and employees; (4) reviewing the Company's compliance with the Corporate Governance Code and related rules; (5) preparing the annual Corporate Governance Report; and (6) reviewing regularly the contribution required from Directors to perform their responsibilities to the Company, and the time commitments.

The Corporate Governance Committee met once during the year ended 31 December 2019. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chairman)*	1/1
Mr. Harry Yang	1/1
Management	
Ms. Cheung Kar Mun, Cindy	1/1
Ms. Cao Jing	1/1

The Corporate Governance Committee had completed the following work during the year:

1. reviewed the Company's policies and practices on corporate governance and made recommendations to the Board;

2. reviewed and monitored the training and continuous professional development of Directors and senior management;

3. monitor the Company's corporate governance practices and ensure compliance with the Corporate Governance Code and the Listing Rules;

4. reviewed and monitored the code of conduct applicable to employees and Directors;

5. reviewed the Company's compliance with the Corporate Governance Code and the disclosures in the Corporate Governance Report; and

6. reviewed the existing terms of reference of Corporate Governance Committee.

COMMUNICATION WITH SHAREHOLDERS

Shareholders communication policy

The Company has adopted the shareholders communication policy (the "Shareholders Communication Policy") to ensure the shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website.

Dividend policy

The Company's dividend policy is to make dividend payout to shareholders when the Group record net profit during a financial year. The dividend payout ratio was determined to be at the range from 15% to 30% on the profit attributable to owners of the Company of the relevant year. In determining the specific dividend payout ratio, the Board will consider the financial performance, financial position, cash flows and capital commitment situation of the Group for the relevant year, and also the plans and requirements on future financing of the Group.

Enquiries of shareholders

Designated contacts and enquiry lines of the Company have been provided in the "Corporate Information" section of this annual report to inform the shareholders and the investment community the channels to make enquiries in respect of the Company. To the extent that the requisite information of the Company is publicly available, shareholders and the investment community may at any time make a request for such information. Shareholders can also make enquiries with the Board directly at the general meetings.

General meetings

Annual general meeting is one of the principal channels for the Company to communicate with the shareholders.

2019 AGM of the Company was held on 18 June 2019, in which Mr. Harry Yang, the Executive Director of the Company, chaired the meeting on behalf of the Board. In addition, the external auditors of the Company and respective chairmen or representatives of the audit, remuneration, nomination and corporate governance committees of the Company attended the 2019 AGM and were available to answer relevant questions. The attendance rates of each of the Directors at the 2019 AGM are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)*	0/1
Mr. Harry Yang	1/1
Non-executive Director	
Mr. Zhang Wei *(former Chairman)* *(Note)*	0/0
Mr. Yang Lin	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1

Note: Mr. Zhang Wei resigned as Chairman of the Board and Non-executive Director of the Company on 11 January 2019.

During the year, two special general meetings of the Company were held for approving various continuing connected transactions of the Company by the shareholders. The attendance rates of each of the Directors at these two special general meetings of the Company are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)*	0/2
Mr. Harry Yang	2/2
Non-executive Director	
Mr. Zhang Wei *(former Chairman)* *(Note)*	0/0
Mr. Yang Lin	0/2
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	2/2
Mr. Lu Xin	2/2
Mr. Tse Hau Yin, Aloysius	2/2

Note: Mr. Zhang Wei resigned as Chairman of the Board and Non-executive Director of the Company on 11 January 2019.

Shareholders' rights

Shareholders, at the date of deposit of the requisition, holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to submit a signed written requisition, specifying the purpose (including any proposals), to the Board or the Company Secretary to require a special general meeting, and deposit the requisition at the Company's principal place of business at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene the special general meeting, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a special general meeting, but any special general meeting so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

In addition, shareholders may propose a person for election as a Director of the Company. Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website, and is disclosed in the section on "Policy in respect of nomination of directors of the Company" in this report.

Constitutional documents

The constitutional documents of the Company, including the memorandum of association and bye-laws of the Company, are available for review by shareholders from the Company's website. During the year, there is no change in these constitutional documents.

EXTERNAL AUDITOR

The Group's external auditor is KPMG. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. During the year, the Audit Committee has considered and approved the re-appointment of KPMG as the auditor of the Group for the year ended 31 December 2019, and the corresponding audit fees estimation.

The audit fees paid or payable by the Group to the external auditors in respect of audit and other non-audit services for the year ended 31 December 2019 were as follows:

	For the year ended 31 December	
Nature of services	**2019**	2018
	RMB'000	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**3,850**	3,850
Other work related to notifiable transactions	**–**	650
Tax related service	**153**	99
Total	**4,003**	4,599

FINANCIAL MANAGEMENT

In 2019, the Group kept on improving the professional qualities and management level of the finance personnel by training, job rotation, crosscheck and performance appraisal. The Group built a talent echelon through internal talent review and external recruitment, and trained the talents through tutorial system and management by projects, continuously improving the professional capabilities and competence of the finance personnel. Besides, the Group strengthened management on the fundamental financial work, normalized rules and regulations, improved the quality of accounting, optimized the internal control system on risks, enhanced management capacities of medium and long-term funds, capital and assets, explored the rational allocation of resources, improved working assets turnover efficiency, strived for precision, efficiency and professionalism, and devoted itself to discovering, protecting and creating corporate value.

In 2019, the Group strengthened the timeliness and accuracy of basic financial information in accounting, completed the accounting records with high quality, and prepared the consolidated financial statements. Financial robots were introduced in accordance with the financial and tax business scenarios, and existing business processes were optimized and improved, which continuously improved work efficiency. At the same time, in accordance with the requirements of the capital market, the Group provided relevant information to the designated information disclosure platform and welcomed the supervision and inspection from regulators.

In 2019, in terms of performance appraisal, the Group constantly improved the total budget management system, paid attention to the breakdown of the budget and the responsibility implementation. The Group utilized the 369 rolling forecast management system, strengthened process monitoring, and guaranteed the achievement of annual targets through deviation rectification in the process of development. The Group carried on with the high-performance orientation, focused on investment returns, optimized resource allocation and brought into full play the strategic orientation and budget monitoring role of performance appraisal.

In 2019, the exchange rate of RMB against the US dollar showed a more obvious trend of bi-directional volatility. The rapid and great changes in the China-US trade negotiations became the main line of the trend all through the year. The exchange rate of RMB against the US dollar steadily “moved beyond 7”, and throughout the year, RMB appreciated, and then depreciated, and returned to appreciation again. Both the bulls and bears in the market repeatedly competed around the 7.0 mark. It had a relatively big impact on the import and export business of the Group. The Group still took prudent measures after considering the operation mode of its fertilizer import business, and adopted a high proportion of forward hedge according to the import agreement and payment plan. As for export business, the Group adopted timely foreign exchange settlement and offset with the import business while conducting export business in order to avoid foreign currency risks.

In 2019, the macro environment at home and abroad became more complicated, and the downward pressure on the economy continued to increase. China strengthened counter-cyclical adjustments, and reduced the financing cost of the real economy through targeted cuts made to required reserve ratios, targeted support, as well as LPR reform which smoothened transmission channels of market-based interest rate. The Group further strengthened cooperation with Sinochem Finance Co., Ltd. and external banks of strategic alliance, maintained sufficient bank credit lines, brought into full play the advantage of integrated operation of both domestic and overseas resources, strengthened the allocation and utilization of internal capital of the Group and increased the capital turnover rate. The Group actively developed forward settlement methods including bank acceptance bill and domestic letter of credit in order to reduce the cost of capital.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board understands that, in accordance with the code provision C.2 of the Corporate Governance Code contained in the Listing Rules, the Board should ensure the Group's internal control and risk management system to be robust and effective, and regularly review the Group's internal control and risk management system in order to safeguard shareholders' interests and the Group's asset. During the reporting period, the Group conducted an annual review and appraisal of the whole internal control and risk management system by applying as standards the Basic Code of Corporate Internal Control and its accompanying guidelines jointly issued by the People's Republic of China, while complying with the Listing Rules and the Internal Control Framework of US Committee of Sponsoring Organizations (COSO). The review assessed and provided feedback on all significant aspects of control so as to ensure the effective operation of the internal control system by taking into consideration the respective characteristics of the headquarter, subsidiaries and branches of the Company.

Internal Control

For years, the Group has been committed to perfect the internal control and risk management system and constantly improved the system construction and its practical effects. In accordance with the requirements of Listing Rules of the Stock Exchange in Hong Kong, the Internal Audit Department, as the key responsible party in internal control of the Group, formulated the internal audit projects and annual internal audit plan based on the results of annual risk assessment so as to assess the efforts made by the Group in internal control and risk management. It also reviewed and discussed with the Audit Committee the implementation of annual audit and the allocation of resources in order to ensure the effectiveness of internal control.

During the reporting period, the Internal Audit Department of the Group implemented its work according to its annual audit plan. The audit projects covered areas such as financial audit, internal control audit and audit investigation, etc.. Key branches, subsidiaries, associates and joint ventures of the Group were in the scope of audit. Combined with the internal control system of the Group, the results of previous internal control assessments, the findings of annual audit investigations, the inspections of the board of supervisors, the strategic requirements of the companies as well as the concern areas of the Audit Committee, through carrying out self-assessments by departments of the headquarter, branches, controlling production subsidiaries and overseas subsidiaries, the Internal Audit Department thoroughly reviewed the effectiveness of the design and implementation of the key elements in respect of environment control, risk assessment, controlled activities, information and communication, internal control, etc.. Furthermore, the Internal Audit Department analyzed and summarized the related contents including the assessment process of internal control, identification of defects and improvement measures of internal control as well as the conclusion on the effectiveness of internal control. The Group further guaranteed the quality of internal control assessment through adopting the approach that combined training, self-assessment and tutoring examination, and perfected the internal control system of the Company by fostering sound internal control assessment and improving the circulation mechanism.

1. Internal environment: After years of development and improvement, the Group has established a sound governance structure, a healthy organizational atmosphere, a clear development strategy, a good corporate culture and a suitable human resources management mechanism, and continued to improve them. The Group performed social responsibilities actively in order to lay a solid foundation for the establishment of a strong and effective internal control system.

2. Risk assessment: Based on the internal and external environment, industrial development as well as management and control requirements during the reporting period, the Group comprehensively sorted out and assessed various risks the Company might face, identified major risk areas as well as risk management and control responsibilities, and constantly improved the construction of the risk management system.

3. Control activities: Based on the internal control environment and the risk assessment results, the Group set up relatively complete control measures in line with the Group's operating management characteristics. By continuously optimizing processes and systems, the Group improved the effectiveness of internal control. The Group continued to improve the execution of internal control activities by strengthening process supervision and inspection, risk warning as well as results assessment.

4. Information and communication: The Group established a complete information channel with smooth information flow in and out as well as up and down, information transmission mechanism, anti-embezzlement mechanism and complaint investigation mechanism so that information could be effectively exchanged, reasonably disclosed and safely utilized within and outside the Company.

5. Internal control: Through years of development, the Group, in accordance with relevant requirements of the Listing Rules of the Stock Exchange and Internal Control Framework of COSO, formulated a set of relatively perfect internal control system, built a multi-level internal control system, and established the working methods, procedures and requirements meeting the standards of international internal audit, which effectively secured the Company's business objectives and strategic transformation.

Through inspection and assessment on internal control system, the Group believed that, for the year of 2019, it had a relatively good internal control environment; systematically identified, assessed and coped with risks the Group faced, established a sound and complete internal system and normative business processes and performed well in information transmission and communication as well as execution of internal supervision. The internal control and risk management system was adequate and effective and could reasonably secure the strategy promotion and current business development of the Group. In future, the Group will continue to comply with the Listing Rules of the Stock Exchange and refer to the Basic Norms of Internal Control and its guidelines. The Group will focus on building a strong multi-level supervision system, improve internal control as well as the early warning mechanism, rectification and follow-up mechanism and outcome application system, further enhance the effectiveness of design and execution of internal control, constantly promote the quality and efficiency of the internal control and ensure the smooth implementation of the Group's strategic objectives.

Risk Management

The Group adopted a risk management mechanism for which the general manager is responsible under the leadership of the Board of Directors and built an organizational guarantee system consisting of the decision-makers, risk management department, responsibility departments for major risk management and auditing and supervision department, which is in charge of the building of the risk management system.

In 2019, faced with a serious and complicated external economic situation and increasing operational pressure, the Group kept up with the advancement of company strategy and business, continued to strengthen risk management, further strengthened the corporate culture of risk awareness among all employees in various ways, enhanced the risk awareness of business units as responsible entities, and actively created an atmosphere of "stable operation and healthy development" for risk control. In line with the requirements of external supervision of the State-owned Assets Supervision and Administration Commission of the State Council and its own risk management, the Group conducted risk identification, assessment and response, paid special attention to the management and control of key businesses, key processes and key risk points and strengthened the management and control means and measures for major risks. The Basic Fertilizers Division and the Distribution Division streamlined and improved management systems, optimized business processes, and ensured that the business operations were carried out in a standard and orderly manner.

In 2019, the Group enhanced the allocation and utilization efficiency of credit and inventory resources, carried out differentiated monitoring and evaluation over companies with over-due receivables, strengthened the reduction of trade receivables and inventory, and further deepened the management and control of key operational risks.

In order to ensure the implementation effectiveness of the risk control system, the Group continued to bring into full play its internal examination and evaluation function, conducted risk assessment in the Basic Fertilizers Division and the Distribution Division, and through headquarters inspection, cross inspection and special inspection, increased the intensity of spot inspections among its subsidiaries. As a result, the quality and efficiency of internal supervision was fully enhanced to ensure the operational safety.

INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Group attaches great importance to investor relations, which is under direct responsibility of the senior management of the Group. Under the supervision and requirements of the Listing Rules and the Rules Governing the Management of Information Disclosure of the Company, the Group maintained close communication with the capital market through multiple channels.

In 2019, the agricultural industry in China was at a stage of restructuring and the fertilizer industry was also confronted with great pressure from transformation, upgrading, reform and development in the context of industrial transformation. As a result, the Group also streamlined and upgraded the business emphasis and strategic direction in 2019. At the same time, the Company actively carried out various work related to investor relations and information disclosure, fully communicated with the capital market on industrial market conditions, business operation and development strategy of the Company, and achieved good results.

In 2019, the work related to investor relations of the Company mainly included:

1. In March 2019, the Company announced its 2018 annual results and held press conference and analysts' meeting.

2. In August 2019, the Company announced its 2019 interim results and held press conference and analysts' meeting.

Apart from the above-mentioned results press conferences, the Group participated in several investor conferences organized by investment banks and also adopted multiple ways in daily work including on-site receptions, conference calls, and emails to keep effective communication and connection with investors and analysts. For the year ended 31 December 2019, the Company had conducted over 300 discussions or communications with the capital market in different ways.

In addition, the Group timely disclosed corporate information through the Stock Exchange and the Company's websites with strict compliance with the Listing Rules and the Rules Governing the Management of Information Disclosure of the Company, delivering important announcements to all shareholders. The Company also continuously updating the Company's website to deliver useful information of the business of the Group to the public.

HEALTH, SAFETY AND ENVIRONMENT

The Group insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, continuously reduced pollutant emission through technological transformation, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. The Group actively built an enterprise featuring intrinsic safety and environmental friendliness and proactively fulfilled its social responsibility.

In 2019, the Group achieved the planned goals of "zero" fatal accident, "zero" general or above environmental incident, "zero" new case of occupational disease and "zero" major negative public opinion on health, safety and environmental protection (HSE). The Group maintained an overall stable performance in HSE.

In 2019, the Group implemented relevant national policies and the arrangements of Sinochem Group, based on the improvement of the HSE system construction, strengthened and clarified the HSE responsibilities of the enterprises and personnel at all levels, centered on "system implementation" and "risk management and control", and fully promoted the HSE system management and risk identification activities among all the employees. All subsidiaries of the Group continued to increase investment in safety, vigorously promoted hazard rectification, constantly improved the working environment of employees, consolidated all the basic construction of occupational health management, effectively controlled occupational hazards, and ensured the health of the personnel.

The subsidiaries of the Group that were involved in resource development and fertilizer production strictly adhered to the laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China as well as the Water Pollution Prevention and Control Law of the People's Republic of China, did a good job in the investigation and management of environmental risk sources, took measures to prevent and control pollution of air, surface water, underground water and soil, and strictly implemented the "three-simultaneity" management of environmental protection for construction projects so as to ensure compliance with national environmental protection laws. The Group set up contingency plans for environmental pollution emergencies, and provided necessary materials for emergency treatment. There was no environmental pollution incident in 2019.

An actual investment of RMB147.67 million was made in the Group's environmental protection throughout the year, including RMB64.69 million in Sinochem Chongqing Fuling Chemicals Fertilizer Co., Ltd. ("Sinochem Fuling"), RMB60.76 million in Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), RMB10.92 million in Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), RMB9.05 million in Sinochem Shandong Fertilizer Co., Ltd., RMB0.90 million in Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd., RMB1.35 million in Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. and RMB4,000 for environmental monitoring in Sinochem Yantai Crop Nutrition Co., Ltd..

In 2019, the Group fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO_2, COD, NH-N and No_x was 1,252.49 tons, 39.03 tons, 5.90 tons and 731.73 tons, respectively. The subsidiaries such as Sinochem Changshan, Sinochem Fuling and Sinochem Yunlong maintained sound operation in terms of environmental protection and saw no major complaint and public opinion incident while the government supervision team carried out inspections.

Environmental, Social and Governance report

The Company is going to publish its 2019 Environmental, Social and Governance Report soon in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. The content of the report will conform to the requirements of the Stock Exchange and disclose Sinofert's environmental, social and governance performance.

MAJOR CUSTOMERS AND SUPPLIERS

The Group focused on key products. On one hand, it strengthened the development of core purchase bases and core suppliers, stabilized the international and domestic supply system, built a diversified supply chain, guaranteed the long-term and stable supply of high-quality fertilizer resources for the Group and continued to maintain its position as a large fertilizer importer in China; on the other hand, it explored key markets and maintained close cooperation with core customers, continued to improve the integrated management of upstream and downstream operations, formed a strong linkage between the upstream and downstream operations and became an important player in the supply chain of basic fertilizers. In 2019, the Group followed the strategy of in-depth distribution, and the proportion of straight service for big growers increased.

In 2019, the aggregate revenue generated from the five major customers of the Group accounted for no more than 20% of the Group's total revenue. The Group maintained a stable potash business relationship with Shandong Sunfull Chemical Group Co., Ltd. ("Sunfull Chemical"), one of the major customers of the Group, since 2006. Sunfull Chemical is also one of the Group's important muriate of potash customers. The Group took the form of advance payment for all the sales to Sunfull Chemical.

In 2019, the aggregate purchase from the Group's five major suppliers accounted for about 21% of the Group's total purchases, including 5% from the largest supplier. As the most important domestic potash supplier for the Group, Qinghai Salt Lake Industry Co., Ltd. maintained a long-term business relationship with the Group and supplied potash products to the Group by means of payment upon delivery or payment in advance.

The Group tightened the access threshold for customers and suppliers. In particular, strict examination and approval procedures were applied to customers with sale on credit and suppliers with payment in advance. The Group closely followed up on the operation status of the major customers and suppliers and credit insurance was adopted. During the year of 2019, the Group maintained sound cooperation with its major customers and suppliers.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group strictly complied with the requirements of laws, regulations and policies in China as well as the Listing Rules of the Stock Exchange. In 2019, with stricter supervision of the Chinese government on environmental protection and work safety, the Group adhered to the Environmental Protection Law of the People's Republic of China, the Production Safety Law of the People's Republic of China, the Fire Prevention Law of the People's Republic of China, the Implementation Rules for Water Pollution Prevention and Control Law, the Management Regulations on Environmental Protection of Construction Project, the Occupational Disease Prevention and Control Law of the People's Republic of China in its production and operation activities. The Group abided by the laws and regulations of environmental protection, clean production and water and soil conservation, actively implemented the principle of putting people first and safe development, built an environmental protection mechanism, formulated an environmental protection plan and regulations within the Group, constantly improved the environmental protection compliance, invested a large amount of resources to improve production equipment, and reduced production emissions and pollutions. Through internal control, risk and HSE management, the Group successfully achieved the emission reduction indicators for the reporting period, largely decreased the total energy consumption and effectively safeguarded the lawful operation and sound implementation of the Group's businesses as well as the achievement of the Group's operation objectives and strategic transformation.

DIRECTORS' REPORT

The board of directors of the Company (the "Board") hereby presents the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding.

The principal activities of the Group include the production, import and export, distribution and retail of fertilizer raw materials and finished products, the provision of technical research and development and services relating to the fertilizer business and products, exploration and exploitation of phosphate mine, and production of monocalcium/monodicalcium phosphate. Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group, an analysis using financial key performance indicators, and an indication of likely future developments in the Group's business, can be found in the sections of "Management Review and Prospect" and "Management's Discussion and Analysis" of the annual report. In addition, a discussion on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers, can be found in the section of "Corporate Governance Report" of the annual report. These discussions form part of the Directors' Report.

An analysis of the Group's performance for the year by business segment is set out in note 4 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 99 to 100 of the annual report.

The Board recommended the payment of a final dividend of HK$0.0294 (equivalent to RMB0.0263) per share for the year ended 31 December 2019 (2018: HK$0.0224, equivalent to RMB0.0196) to the shareholders, estimated to be HK$206,519,000 (equivalent to approximately RMB185,000,000) out of the contributed surplus of the Company. It is expected that the relevant dividend will be paid by 18 June 2020 to those entitled, subject to shareholders' approval at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the operating results and of the assets and liabilities of the Group for the last five financial years is set out on page 196 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover from the Group's five largest customers were less than 30% of the Group's total turnover for the year ended 31 December 2019. The aggregate purchases from the Group's five largest suppliers represented less than 30% of the Group's total purchases for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company for the year are set out in note 36 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 104 to 105 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to approximately RMB1,772,378,000 (2018: RMB1,908,520,000). The amount represented the credit standing in the contributed surplus and retained earnings of the Company as at 31 December 2019.

DONATIONS

During the year ended 31 December 2019, the Group had made approximately RMB337,200 charitable donations in cash, and had donated fertilizer worth approximately RMB566,400 to certain poverty locations in China.

DIRECTORS

The Directors of the Company for the year and up to the date of this report were:

Executive Directors
Mr. Qin Hengde *(Chief Executive Officer)*
Mr. Feng Mingwei *(appointed on 25 February 2020)*
Mr. Harry Yang

Non-Executive Directors
Mr. Zhang Wei *(Former Chairman, resigned on 11 January 2019)*
Mr. Yang Lin

Independent Non-Executive Directors
Mr. Ko Ming Tung, Edward
Mr. Lu Xin
Mr. Tse Hau Yin, Aloysius

In accordance with the bye-laws of the Company, Mr. Yang Lin and Mr. Harry Yang will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 40 to 44 of the annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to the disclosure requirements under rule 13.51B(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the changes/update of information of Directors during the year ended 31 December 2019 and up to the date of this report are as follows:

1. The total cash compensation received by Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, and Mr. Harry Yang, an Executive Director of the Company, for the year ended 31 December 2019 are set out in note 10 to the consolidated financial statements.

2. The directors' fee received by Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius, all being Independent Non-executive Director of the Company, adjusted during the year ended 31 December 2019. The amounts are disclosed in note 10 to the consolidated financial statements.

3. Mr. Zhang Wei resigned as a Non-executive Director and Chairman of the Board of the Company with effect from 11 January 2019.

4. Mr. Feng Mingwei was appointed as an Executive Director of the Company with effect from 25 February 2020.

5. Mr. Ko Ming Tung, Edward, an Independent Non-executive Director of the Company, ceased to be an independent non-executive director of Zioncom Holdings Limited with effect from 1 January 2020.

6. The updates on the positions in other corporations of Mr. Qin Hengde, an Executive Director and Chief Executive Officer of the Company, during the year ended 31 December 2019 are as follows:

   (1) appointed as the non-independent director and the chairman of the board of Win-all Hi-tech Seed Co., Ltd. (a company listed on the Shenzhen Stock Exchange) in January 2020;

   (2) appointed as the president of Syngenta (China) Investment Co., Ltd. in July 2019;

   (3) appointed as the chairman of the board of Jiangsu Yangnong Chemical Co., Ltd. (a company listed on the Shanghai Stock Exchange) in December 2019; and

   (4) resigned as the executive director of China National Seed Group Co., Ltd., a subsidiary company of Sinochem Group Co., Ltd., in April 2019.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2019, the Company had entered into service contracts with Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, and Mr. Harry Yang, Executive Director of the Company. Each service contract with Executive Directors has a term of three years and will be renewable upon mutual negotiation on expiry.

The Company had issued formal letters of appointment for all Non-executive Directors (including Independent Non–executive Directors) of the Company, setting out key terms and conditions of their appointment, in compliance with the code provision D.1.4 as set out in the Corporate Governance Code.

Save as disclosed above, as at 31 December 2019, none of the Directors has a service contract with the Company.

DIRECTORS' INTERESTS IN THE SHARES

As at 31 December 2019, the interests of the Directors and chief executives in the shares, share options, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules, were disclosed below.

As at 31 December 2019, the following Directors of the Company had long position in the ordinary shares of HK$0.1 each of the Company:

Name of Director	Capacity	Number of issued shares held	Percentage of the issued share capital of the Company
Lu Xin	Beneficial owner	2,900,000	0.041%
Tse Hau Yin, Aloysius	Beneficial owner	3,404,000	0.048%

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had any interests or short positions in any shares, share options, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than disclosed above, at no time during the year and as at 31 December 2019, was the Company or any of its subsidiaries or holding companies or the subsidiaries of the holding companies a party to any arrangement the object of which is to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary shares held – Long position	Percentage of the issued share capital of the Company
Sinochem Group Co., Ltd. ("Sinochem Group") *(Note 1)*	3,698,660,874	52.65%
Sinochem Corporation *(Note 1)*	3,698,660,874	52.65%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") *(Note 2)*	3,698,660,874	52.65%
Nutrien Ltd. *(Note 3)*	1,563,312,141	22.26%
Potash Corporation of Saskatchewan Inc. ("Potash Corporation") *(Note 3)*	1,563,312,141	22.26%
PCS (Barbados) Investment Company Limited ("PCS") *(Note 4)*	1,563,312,141	22.26%

Notes:

1. As at 31 December 2019, Sinochem HK is a wholly-owned subsidiary of Sinochem Corporation (中國中化股份有限公司). Sinochem Corporation is a 98% owned subsidiary of Sinochem Group Co., Ltd. (中國中化集團有限公司). Accordingly, Sinochem Group and Sinochem Corporation are deemed to be interested in 3,698,660,874 ordinary shares of the Company, being corporate interest beneficially held by Sinochem HK.

2. Sinochem HK was beneficially interested in 3,698,660,874 ordinary shares of the Company.

3. PCS is a wholly-owned subsidiary of Potash Corporation. Potash Corporation is a wholly-owned subsidiary of Nutrien Ltd. Accordingly, Nutrien Ltd. and Potash Corporation are deemed to be interested in 1,563,312,141 ordinary shares of the Company, being corporate interest beneficially held by PCS.

4. PCS was beneficially interested in 1,563,312,141 ordinary shares of the Company.

5. Sinochem HK has entered into a share transfer agreement with China Chemical (Shanghai) Agricultural Technology Corporation Ltd., renamed as Syngenta Group Co., Ltd. ("Syngenta Group"), on 5 January 2020, pursuant to which Sinochem HK has agreed to transfer 3,698,660,874 shares held by it in the Company to Syngenta Group or one or more of its affiliate(s), for an aggregate consideration of US$1. Syngenta Group is an indirect wholly-owned subsidiary of China National Chemical Corporation Ltd., a PRC wholly state-owned chemical enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Following the completion of the transfer, Syngenta Group (or its affiliate(s), as the case may be) will become the substantial and controlling shareholder of the Company.

Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2019, which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

DIRECTORS OR THEIR ASSOCIATED ENTITIES' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed herein, no other transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company or any of their associated entities had a material interest, whether directly or indirectly, were subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Qin Hengde, an Executive Director and Chief Executive Officer of the Company, is the deputy chairman of the board of directors of Qinghai Salt Lake Industry Co., Ltd. (青海鹽湖工業股份有限公司) ("Qinghai Salt Lake"). Mr. Feng Mingwei, an Executive Director of the Company appointed on 25 February 2020, is also a non-executive director of Qinghai Salt Lake. Qinghai Salt Lake is a joint stock limited liability company incorporated in the PRC whose shares are traded on the Shenzhen Stock Exchange (stock code: 000792). The principal activities of Qinghai Salt Lake include the development, production and sale of potassium chloride (a form of potash), and the comprehensive development and utilization of salt lake resources. The Company's controlling shareholder Sinochem Group holds 20.52% of the issued shares in Qinghai Salt Lake.

The board of directors of Qinghai Salt Lake consists of 11 directors. Mr. Qin Hengde and Mr. Feng Mingwei are not involved in the daily production, sale, operation or management of Qinghai Salt Lake. Both Mr. Qin Hengde and Mr. Feng Mingwei have extensive experience in the fertilizer industry, are aware of their duties and responsibilities as the Directors and senior management members of the Company, and are able to devote sufficient time to the business of the Group. The Company believes that Mr. Qin Hengde and Mr. Feng Mingwei are able to exercise their independent judgment in making decisions at Board meetings and act in the interest of the Group.

Save as disclosed above, during the year ended 31 December 2019 and up to the date of this report, none of the Directors of the Company and their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTIONS

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies and certain specific terms included in this section shall have the same meaning assigned to them in the respective announcements or circulars.

I. One-off Connected Transactions

For the year ended 31 December 2019, the Group conducted the following one-off connected transactions that are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

1. *Provision of Financial Assistance by Sinochem Fertilizer to Sinochem Agriculture and Sinochem Corporation*

1) *Entrusted Loan Contract and Agreement for the Use of Fund*

On 26 November 2018, Sinochem Fertilizer (as the lender) entered into an entrusted loan contract (the "Entrusted Loan Contract") with Sinochem Agriculture (as the borrower) and Sinochem Finance (as the lending agent), with a term from 20 December 2018 to 15 December 2019. Pursuant to the Entrusted Loan Contract, Sinochem Fertilizer agreed to provide the entrusted loan in a total principal amount of not more than RMB1 billion (which is of a revolving nature) to Sinochem Agriculture through Sinochem Finance. The interest rate of the entrusted loan was 4.385% per annum. Sinochem Agriculture shall use the entrusted loan for its daily working capital, including the procurement and storage of autumn grain crops.

On 21 November 2018, Sinochem Fertilizer (as the lender) also entered into an agreement for the use of fund (the "Agreement for the Use of Fund") with Sinochem Agriculture and Sinochem Corporation (each as a borrower), with a term from 20 December 2018 to 14 December 2019. Pursuant to the Agreement for the Use of Fund, Sinochem Fertilizer agreed to provide the fund in a total amount of not more than RMB1.1 billion (which is of a revolving nature) to Sinochem Agriculture and Sinochem Corporation. The interest rate for the use of the fund by Sinochem Agriculture was 4.5675% per annum, and the interest for the use of the fund by Sinochem Corporation is 3.915% per annum. Sinochem Agriculture shall use the fund for its equity investment in the sectors of agricultural materials and agricultural services, and Sinochem Corporation shall use the fund for its daily working capital.

Sinochem Corporation issued the letter of undertaking to Sinochem Fertilizer on 2 November 2018, pursuant to which Sinochem Corporation had undertaken to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities in connection with all the contractual obligations of Sinochem Agriculture under the Entrusted Loan Contract and the Agreement for the Use of Fund.

2) *New Agreement for the Use of Fund*

On 8 November 2019, Sinchem Fertilizer (as the lender) entered into a new agreement for the use of fund (the "New Agreement for the Use of Fund") with Sinochem Agriculture (as the borrower), with a term of one year from 8 November 2019. Pursuant to the New Agreement for the Use of Fund, the parties agreed that upon repayment by Sinochem Agriculture and Sinochem Corporation of the above outstanding amount under the Agreement for the Use of Fund and the Entrusted Loan Contract, Sinochem Fertilizer would continue to provide the fund in an amount of not more than RMB250 million to Sinochem Agriculture. Sinochem Agriculture repaid all the outstanding amount under the Agreement for the Use of Fund and the Entrusted Loan Contract on 18 November 2019. The interest rate for the fund provided under the New Agreement for the Use of Fund was 4.2 % per annum. Sinochem Agriculture shall use the fund for its daily working capital and acquisition of fixed assets.

Sinochem Group issued the letter of undertaking to Sinochem Fertilizer on 7 November 2019, pursuant to which Sinochem Group had undertaken to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities in connection with all the contractual obligations of Sinochem Agriculture under the New Agreement for the Use of Fund.

Each of Sinochem Agriculture and Sinochem Corporation is a subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. Accordingly, each of Sinochem Agriculture and Sinochem Corporation is a connected person of the Company. Therefore, the transactions contemplated under the Entrusted Loan Contract, the Agreement for the Use of Fund and the New Agreement for the Use of Fund constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratios in respect of the transactions under the Entrusted Loan Contract and the Agreement for the Use of Fund in aggregate are more than 25% but less than 100%, such transactions (i) are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and (ii) also constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements under such Chapter. Given that one or more of the applicable percentage ratios in respect of the transaction under the New Agreement for the Use of Fund are more than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 7 November 2018 and 8 November 2019, and the circular dated 5 December 2018 published by the Company. The transactions under the Entrusted Loan Contract and the Agreement for the Use of Fund have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 20 December 2018.

II. Continuing Connected Transactions

For the year ended 31 December 2019, the Group's continuing connected transactions are listed below, which are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the following continuing connected transactions. During the year, the Company have followed the pricing policies and guidelines formulated at the time when such transactions were entered into.

1. *Sulphur Import Framework Agreements among Sinochem Fertilizer, Dohigh Trading/Sinochem Singapore and Sinochem Group*

1) *Sulphur Import Framework Agreement*

On 30 October 2018 and 15 April 2019, Dohigh Trading, Sinochem Singapore and Sinochem Fertilizer entered into a sulphur, fertilizer and other fertilizer raw materials import framework agreement and its supplemental agreement (the "Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading and Sinochem Singapore and sell them to Sinochem Fertilizer during the period from 1 January 2019 to 31 December 2019 (both days inclusive).

Under the Sulphur Import Framework Agreement, the pricing principles for the sale and purchase of sulphur, fertilizer and other fertilizer raw materials between the parties were as follows: (i) the price paid by Sinochem Group to Dohigh Trading and Sinochem Singapore for sulphur, fertilizer and other fertilizer raw materials sold by Dohigh Trading and Sinochem Singapore to Sinochem Group shall be determined in accordance with the prevailing international market price; and (ii) the price paid by Sinochem Fertilizer to Sinochem Group for sulphur, fertilizer and other fertilizer raw materials sold by Sinochem Group to Sinochem Fertilizer shall be determined in accordance with the domestic wholesale price at port. In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baiinfo (百川盈孚).

Under the Sulphur Import Framework Agreement, the annual cap for the year ended 31 December 2019 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from Dohigh Trading and Sinochem Singapore was US$95,130,000; the annual cap for the year ended 31 December 2019 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer was RMB665,900,000.

2) *New Sulphur Import Framework Agreement*

On 5 November 2019, the Company (for and on behalf of Dohigh Trading and Sinochem Singapore) and Sinochem Fertilizer renewed the sulphur, fertilizer and other fertilizer raw materials import framework agreement (the "New Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group will continue to import sulphur, fertilizer and other fertilizer raw materials sourced by the overseas subsidiaries of the Company (including Dohigh Trading and Sinochem Singapore) and sell them to Sinochem Fertilizer during the period from 1 January 2020 to 31 December 2020 (both days inclusive). The terms of the New Sulphur Import Framework Agreement are substantially the same as those of the Sulphur Import Framework Agreements.

Under the New Sulphur Import Framework Agreement, the annual cap for the year ending 31 December 2020 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from the overseas subsidiaries of the Company is US$98,860,000; the annual cap for the year ending 31 December 2020 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer is RMB710,000,000.

Each of Sinochem Fertilizer, Dohigh Trading and Sinochem Singapore is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 30 October 2018, 15 April 2019 and 5 November 2019, and the circulars dated 20 November 2018 and 26 November 2019 published by the Company. The continuing connected transactions under and the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings of the Company held on 20 December 2018 and 19 December 2019, respectively.

2. Fertilizer Co-operation Framework Agreements among Sinochem Fertilizer, Sinochem Macao and Sinochem Group

1) Fertilizer Co-operation Framework Agreement

On 30 October 2018, Sinochem Macao and Sinochem Fertilizer entered into a fertilizer sale cooperation framework agreement (the "Fertilizer Co-operation Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import fertilizer products sourced by Sinochem Macao and sell them to Sinochem Fertilizer during the period from 1 January 2019 to 31 December 2019 (both days inclusive).

Under the Fertilizer Co-operation Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties were as follows: (i) the price paid by Sinochem Group to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Group shall be determined in accordance with the prevailing international market price; (ii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced from overseas by Sinochem Macao shall be determined in accordance with the purchase price paid by Sinochem Group plus reasonable costs incurred by Sinochem Group in relation to the import of fertilizer products; and (iii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced by Sinochem Group directly from overseas suppliers shall be determined in accordance with the domestic wholesale price at port. In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baiinfo (百川盈孚).

Under the Fertilizer Co-operation Framework Agreement, the annual cap for the year ended 31 December 2019 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group was US$1,080,000,000; the annual cap for the year ended 31 December 2019 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group was RMB7,960,000,000.

2) *New Fertilizer Co-operation Framework Agreement*

On 5 November 2019, Sinochem Macao and Sinochem Fertilizer renewed the fertilizer cooperation framework agreement (the "New Fertilizer Co-operation Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group will continue to import fertilizer products sourced by Sinochem Macao and sell them to Sinochem Fertilizer during the period from 1 January 2020 to 31 December 2020 (both days inclusive). The terms of the New Fertilizer Co-operation Framework Agreement are substantially the same as those of the Fertilizer Co-operation Framework Agreement.

Under the New Fertilizer Co-operation Framework Agreement, the annual cap for the year ending 31 December 2020 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group is US$1,126,000,000; the annual cap for the year ending 31 December 2020 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group is RMB8,346,000,000.

Each of Sinochem Fertilizer and Sinochem Macao is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. The transactions contemplated under the Fertilizer Co-operation Framework Agreement and the New Fertilizer Co-operation Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Fertilizer Cooperation Framework Agreement and the New Fertilizer Co-operation Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 30 October 2018 and 5 November 2019, and the circulars dated 20 November 2018 and 26 November 2019 published by the Company. The continuing connected transactions under the Fertilizer Co-operation Framework Agreement and the New Fertilizer Co-operation Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings of the Company held on 20 December 2018 and 19 December 2019, respectively.

3. *Fertilizer Sale Framework Agreements between Sinochem Fertilizer and Sinochem Agriculture*

1) *Fertilizer Sale Framework Agreement*

On 24 December 2018, Sinochem Fertilizer and Sinochem Agriculture entered into a fertilizer sale framework agreement (the "Fertilizer Sale Framework Agreement"), pursuant to which Sinochem Fertilizer would, during the period from 1 January 2019 to 31 December 2019 (both days inclusive), sell its fertilizer products to Sinochem Agriculture who would then sell such products to its customers, so as to expand the market share of Sinochem Fertilizer by taking advantage of Sinochem Agriculture's extensive customer base in the agricultural sector.

Pursuant to the Fertilizer Sale Framework Agreement, Sinochem Fertilizer would sell fertilizer products to Sinochem Agriculture at the fair market price of such fertilizer products at the time of the transaction. In determining the fair market price of fertilizer products sold by Sinochem Fertilizer to Sinochem Agriculture, the Group generally makes reference to weekly reports published by certain independent commodity information providers such as Baiinfo (百川盈孚).

Under the Fertilizer Sale Framework Agreement, the annual cap for the year ended 31 December 2019 in respect of the sale of fertilizer products by Sinochem Fertilizer to Sinochem Agriculture was RMB820,000,000.

2) *New Fertilizer Sale Framework Agreement*

On 12 November 2019, Sinochem Fertilizer and Sinochem Agriculture renewed the fertilizer sale framework agreement (the "New Fertilizer Sale Framework Agreement"), pursuant to which Sinochem Fertilizer will, during the period from 1 January 2020 to 31 December 2020 (both days inclusive), continue to sell its fertilizer products to Sinochem Agriculture who will then sell such products to its customers. The terms of the New Fertilizer Sale Framework Agreement are substantially the same as those of the Fertilizer Sale Framework Agreement.

Under the New Fertilizer Sale Framework Agreement, the annual cap for the year ending 31 December 2020 in respect of the sale of fertilizer products by Sinochem Fertilizer to Sinochem Agriculture is RMB712,000,000.

Sinochem Group is the ultimate controlling shareholder of the Company. Sinochem Agriculture is a wholly-owned subsidiary of Sinochem Group, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Fertilizer Sale Framework Agreement and the New Fertilizer Sale Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Fertilizer Sale Framework Agreement and the New Fertilizer Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 24 December 2018, 11 February 2019 and 12 November 2019, and the circulars dated 26 February 2019 and 3 December 2019 published by the Company. The continuing connected transactions under the Fertilizer Sale Framework Agreement and the New Fertilizer Sale Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings of the Company held on 13 March 2019 and 19 December 2019, respectively.

4. Financial Services Framework Agreements between the Company and Sinochem Finance

1) Financial Services Framework Agreement

On 9 December 2016 and 17 January 2018, the Company and Sinochem Finance entered into a financial services framework agreement and its supplemental agreement (the "Financial Services Framework Agreement"). Pursuant to the Financial Services Framework Agreement, the Group would, from time to time, utilize the financial services available from Sinochem Finance as it deems necessary during the period ended 31 December 2019, which included the deposit services, provision of loan services, arrangement of entrustment loans, commercial bills of exchange services, buyer financing services, settlement services, provision of guarantees, internet banking services and any other financial services as approved by the CBIRC, and pay the relevant interests and service fees to or receive deposit interests from Sinochem Finance in accordance with the Financial Services Framework Agreement. The interests for the deposit services, and the fees charged for the provision of guarantees, internet banking services and other financial services approved by the CBIRC are determined by the standard rates as promulgated by the PBOC from time to time or the prevailing market rates. The interest payable for the provision of loans services, the service fee payable for the arrangement of entrustment loans and commercial bills of exchange services shall not exceed the service fee and relevant interest payable on such services under the same terms obtainable from independent commercial banks. No service fee is payable for buyer financing services and settlement services.

Under the Financial Services Framework Agreement, the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for each of the two years ended 31 December 2019 was RMB1,000,000,000. In respect of the other financial services, the annual cap for each of the two years ended 31 December 2019 was RMB10,000,000.

2) New Financial Services Framework Agreement

On 18 November 2019, the Company and Sinochem Finance renewed the financial services framework agreement (the "New Financial Services Framework Agreement"), pursuant to which the Group will continue to utilize the financial services available from Sinochem Finance as it deems necessary during the period form 1 January 2020 to 31 December 2020 (both days inclusive). The terms of the New Financial Services Framework Agreement are substantially the same as those of the Financial Services Framework Agreement.

Under the New Financial Services Framework Agreement, the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ending 31 December 2020 is RMB1,000,000,000. In respect of the other financial services, the annual cap for each of the year ending 31 December 2020 is RMB10,000,000.

Sinochem Finance is a wholly-owned subsidiary of Sinochem Corporation, which is the indirect controlling shareholder of the Company. Sinochem Finance is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Financial Services Framework Agreement and the New Financial Services Framework Agreement constitute continuing connected transactions of the Company. Given the applicable percentage ratios in respect of the maximum daily outstanding balance of the deposit services under the Financial Services Framework Agreement and the New Financial Services Framework Agreement are more than 5% but less than 25%, the deposit services (i) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and (ii) also constitute a discloseable transaction under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under such Chapter.

Given that the applicable percentage ratios in respect of the other financial services under the Financial Services Framework Agreement and the New Financial Services Framework Agreement are more than 0.1% but less than 5%, the other financial services are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the loan services provided to the Group by Sinochem Finance (excluding entrustment loans) constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance, pursuant to Rule 14A.90 of the Listing Rules, the continuing connected transactions involving the provision of loan services are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2016, 17 January 2018 and 18 November 2019, and the circulars dated 12 February 2018 and 4 December 2019 published by the Company. The deposit services under the Financial Services Framework Agreement and the New Financial Services Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings held on 2 March 2018 and 19 December 2019, respectively.

5. Agrichemical Framework Agreements between Sinochem Fertilizer and Sinochem Group

1) Agrichemical Framework Agreement

On 26 November 2018, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) entered into a framework agreement in relation to agrichemical, seed and other related products (the "Agrichemical Framework Agreement"), pursuant to which the subsidiaries of Sinochem Group would sell to Sinochem Fertilizer certain agrichemical, seed and other related products during the period from 1 January 2019 to 31 December 2019 (both days inclusive).

Pursuant to the Agrichemical Framework Agreement, prices of agrichemical, seed and other related products would be determined with reference to fair market prices of the products within the PRC at the time when Sinochem Fertilizer submitted its purchase plan for the relevant products. In determining the fair market price of the agrichemical, seed and other related products, the Group generally makes reference to weekly reports published by certain independent commodity information providers such as Baiinfo (百川盈孚).

The annual cap for the year ended 31 December 2019 in respect of the continuing connected transactions under the Agrichemical Framework Agreement was RMB68,000,000.

2) New Agrichemical Framework Agreement

On 9 December 2019, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) entered into a framework agreement in relation to agrichemical, seed and other related products (the "New Agrichemical Framework Agreement"), pursuant to which Sinochem Fertilizer will purchase from and/or sell to subsidiaries of Sinochem Group certain agrichemical, seed and other related products during the period from 1 January 2020 to 31 December 2020 (both days inclusive).

The annual purchase cap for the year ending 31 December 2020 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement is RMB100,000,000, and the annual sale cap for the year ending 31 December 2020 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement is RMB100,000,000.

Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Agrichemical Framework Agreement and the New Agrichemical Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Agrichemical Framework Agreement and the New Agrichemical Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 26 November 2018 and 9 December 2019 published by the Company.

6. Service Agreement between Sinochem Macao and Sinochem UK

1) UK Service Agreement

On 9 December 2016, Sinochem Macao entered into a service agreement (the "UK Service Agreement") with Sinochem UK, pursuant to which Sinochem UK would provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly included salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs) during the period from 1 January 2017 to 31 December 2019 (both days inclusive). Pursuant to the UK Service Agreement, the fee payable by Sinochem Macao shall range from US$4 to US$10 per tonne of products.

Under the UK Service Agreement, the annual cap for each of the three years ended 31 December 2019 in respect of the continuing connected transactions between Sinochem Macao and Sinochem UK was US$2,300,000.

2) New UK Service Agreement

On 9 December 2019, Sinochem Macao and Sinochem UK renewed the service agreement (the "New UK Service Agreement"), pursuant to which Sinochem UK will continue to provide local supplier relations and logistics services to Sinochem Macao during the period from 1 January 2020 to 31 December 2022 (both days inclusive). The terms of the New UK Service Agreement are substantially the same as those of the UK Service Agreement.

Under the New UK Service Agreement, the annual cap for each of the three years ending 31 December 2022 in respect of the continuing connected transactions between Sinochem Macao and Sinochem UK is US$2,300,000.

Sinochem UK is an indirect subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. Sinochem UK is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the UK Service Agreement and the New UK Service Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the UK Service Agreement and the New UK Service Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2016 and 9 December 2019 published by the Company.

7. *The MOU between Sinochem Macao and Canpotex*

On 28 December 2017, Sinochem Macao and Canpotex entered into the MOU, pursuant to which Sinochem Macao agreed to purchase an annual volume of 500,000 tonnes of red standard grade potash from Canpotex for each of the three years ending 31 December 2020. In addition, if mutually agreed upon by the parties, Sinochem Macao will have the option to purchase from Canpotex further volumes up to 500,000 tonnes of Canadian potash per year comprised of the following grades: red standard grade potash, red granular grade potash, white fine standard grade potash and white standard grade potash.

Under the MOU, prices will be determined on a six-month basis through mutual negotiations between the parties with reference to prevailing international market potash prices and competitive sea import prices to the PRC. If Sinochem Macao and Canpotex cannot reach final agreements on prices within 90 days from the last day of the previous six-month pricing period, both parties will be free to pursue business through alternative channels. In determining such prices, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baiinfo (百川盈孚).

The annual caps for the three years ending 31 December 2020 in respect of the continuing connected transactions under the MOU are US$250,000,000, US$260,000,000, and US$270,000,000, respectively.

Nutrien is a substantial shareholder of the Company, and Canpotex is owned as to 50% by Nutrien. As such, Canpotex constitutes a connected person of the Company. The transactions contemplated under the MOU constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the MOU are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 28 December 2017, and the circular dated 12 February 2018 published by the Company. The continuing connected transactions under the MOU have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 2 March 2018.

8. Lease Contract between Sinochem Fertilizer and Chemsunny

On 28 January 2015, 23 March 2018 and 11 December 2018, Sinochem Fertilizer entered into a lease contract and two supplemental agreements (the "Lease Contract") with Chemsunny, pursuant to which Sinochem Fertilizer (as the lessee) will lease the office spaces in Chemsunny World Trade Centre from Chemsunny (as the lessor) during the period ending 31 December 2020. The rentals and the management fees of the Properties are RMB1,921,987.38 and RMB155,310.21 per month, respectively, payable by Sinochem Fertilizer on a quarterly basis.

The rentals and the management fees of the properties shall be determined based on arm's length negotiations between the Group and the Chemsunny on the prevailing market rates and on normal commercial terms. When determining the rentals and the management fees, the Group has made reference to the rates of similar types of properties in the surrounding areas and the rates charged by Chemsunny to other tenants of Chemsunny World Trade Centre.

The annual cap (inclusive of the rentals, management fees and utility charges) for each of the three years ending 31 December 2020 in respect of the continuing connected transactions under the Lease Contract is RMB40,000,000.

Chemsunny is an indirect non-wholly owned subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. Chemsunny is therefore a connected person of the Company. Pursuant to 14A of the Listing Rules, the transactions contemplated under the Lease Contract constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Lease Contract are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 28 January 2015, 23 March 2018 and 11 December 2018 published by the Company.

III. The annual caps approved for and the actual transacted amount of continuing connected transactions of the Group for the year ended 31 December 2019 are set out below:

Name of Transactions	Currency	For the year ended 31 December 2019 Annual Caps ('000)	Annual Transacted Amount ('000)
1. Sulphur Import Framework Agreement			
1) Dohigh Trading and Sinochem Singapore supplies sulphur, fertilizer and other fertilizer raw materials to Sinochem Group	USD	95,130	33,773
2) Sinochem Fertilizer purchases sulphur, fertilizer and other fertilizer raw materials from Sinochem Group	RMB	665,900	223,435
2. Fertilizer Co-operation Framework Agreement			
1) Sinochem Macao supplies fertilizer products to Sinochem Group	USD	1,080,000	747,436
2) Sinochem Fertilizer purchases fertilizer products from Sinochem Group	RMB	7,960,000	5,326,976
3. Sinochem Fertilizer supplies fertilizer products to Sinochem Agriculture	RMB	820,000	412,278
4. Financial Services Framework Agreement			
1) Maximum daily outstanding balance of deposits with Sinochem Finance	RMB	1,000,000	840,103
2) Other Financial Services provided by Sinochem Finance (save for the provision of loans to the Group)	RMB	10,000	1,820
5. Sinochem Fertilizer purchases certain agrichemical, seed and other related products from Sinochem Group	RMB	68,000	9,673
6. Sinochem Macao utilizes local supplier relations and logistics services from Sinochem UK	USD	2,300	2,300
7. Sinochem Macao purchases Canadian potash from Canpotex	USD	260,000	101,383
8. Sinochem Fertilizer leases office spaces from Chemsunny	RMB	40,000	27,564

Transactions with joint ventures and associates, and loans from Sinochem Group, Sinochem Finance and related parties, which are disclosed as related party disclosures in note 42 to the consolidated financial statements of the annual report, do not fall under the definition of connected transactions or continuing connected transactions or were fully exempt under Chapter 14A of the Listing Rules and thus are not disclosed above.

Save as disclosed, there are no other connected transactions or continuing connected transactions of the Company which require disclosure in accordance with the Listing Rules.

IV. Confirmation from independent non-executive Directors

In the opinion of the Independent Non-executive Directors of the Company, the continuing connected transactions for the year ended 31 December 2019 have been entered into by the Group:

- in the ordinary and usual course of its business;
- on normal commercial terms or better; and
- according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

V. Confirmation from independent auditor in respect of the continuing connected transactions

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740, *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rules 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Board has received a letter from the independent auditor in respect of the above disclosed continuing connected transactions, which confirmed that:

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;
- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

CONTRACTS OF SIGNIFICANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

Sinochem Group is the ultimate controlling shareholder of the Company. The contracts of significance between the Company and/or its subsidiaries with Sinochem Group and/or its subsidiaries are disclosed in details in the section headed "Connected Transactions" in this Directors' Report.

MAJOR DISCLOSEABLE EVENTS

1. During the year, Sinochem Fertilizer, a subsidiary of the Company completed several financing activities for replenishing the working capital and for repayment of certain debts of the Group. These financing activities are listed below:

   (i) The first tranche of the super & short-term commercial paper for the year of 2019 in an amount of RMB1 billion, with a term of 180 days and at a coupon rate of 3% per annum, was issued on 26 April 2019, and was subsequently repaid on 23 October 2019;

   (ii) The second tranche of the super & short-term commercial paper for the year of 2019 in an amount of RMB1 billion, with a term of 270 days and at a coupon rate of 2.95% per annum, was issued on 18 July 2019;

   (iii) The third tranche of the super & short-term commercial paper for the year of 2019 in an amount of RMB0.6 billion, with a term of 270 days and at a coupon rate of 2.95% per annum, was issued on 22 August 2019;

   (iv) The fourth tranche of the super & short-term commercial paper for the year of 2019 in an amount of RMB0.8 billion and at a coupon rate of 2.95% per annum, was issued on 28 October 2019.

2. On 24 July 2019, Sinochem Fertilizer (as the lender) entered into the Entrusted Loan Contract with Yangmei Pingyuan (as the borrower) and Sinochem Finance (as the lending agent), pursuant to which Sinochem Fertilizer agreed to provide the Entrusted Loan in the principal amount of RMB670,000,000 to Yangmei Pingyuan through Sinochem Finance at an interest rate of 6.05% per annum. The term of the Entrusted Loan is from 24 July 2019 to 23 July 2020. The Entrusted Loan shall be used for the replenishment of the daily working capital of Yangmei Pingyuan.

   Given that one or more of the applicable percentage ratios in respect of the Entrusted Loan are more than 5% but less than 25%, the provision of the Entrusted Loan constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. For detailed information on the aforesaid transaction and the defined terms used above, please refer to the announcement dated 24 July 2019 published by the Company.

Save as disclosed above and in this report, the Company had no other major discloseable events during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY' LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PUBLIC FLOAT

During the period from 6 September 2018 to 23 January 2019, the public float of the Company was below 25% of the total issued share capital of the Company as prescribed by Rule 8.08(1)(a) of the Listing Rules. With a view to assist the Company to restore its public float in compliance with Rule 8.08(1)(a) of the Listing Rules, the Directors have disposed of a total of 6,654,600 shares of the Company, representing approximately 0.0947% of the total issued share capital of the Company, during the period from 3 January 2019 to 23 January 2019. Upon completion of the above disposals, the public float of the Company has been restored to approximately 25.0009%. Accordingly, the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules has been restored. For more details, please refer to the announcements of the Company dated 3 January 2019 and 24 January 2019.

Save as disclosed above, based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float exceeding 25% of its issued share capital throughout the year ended 31 December 2019 and up to the date of this report.

REMUNERATION POLICY

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the remuneration policy of the Group are set out in the "Corporate Governance Report" on page 54.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 44 to the consolidated financial statements.

HOUSING FUNDS

The Group strictly complied with the regulations of the relevant region in respect of the contribution to the housing funds for its employees.

POST BALANCE SHEET EVENT

1. Capital injection to Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling")

On 16 March 2020, the board of Directors of the Company announced that Sinochem Fertilizer, Sinochem Fuling, the Fuling District State-owned Assets Supervision and Administration Commission of Chongqing ("Fuling SASAC"), Chongqing Fuling State-owned Assets Management Group Co., Ltd. (重慶市涪陵國有資產投資經營集團有限公司, ("Fuling SAM")) and Suzhou Compound Fertilizer Plant Co., Ltd. (蘇州複合肥廠有限公司) entered into an agreement ("the Transaction"), pursuant to which (i) Sinochem Fertilizer agreed to convert an amount of RMB700,000,000 in the outstanding shareholder's loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling; and (ii) Fuling SAM, a wholly-owned subsidiary of Fuling SASAC, agreed to subscribe for an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash. Upon completion of the Transaction, the registered capital of Sinochem Fuling will increase from RMB148,000,000 to RMB1,058,000,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Fuling will increase from 60% to 74.56%. The Transaction will be completed by 30 June 2021.

2. The impact of Covid-19 Pandemic

The Covid-19 Pandemic since early 2020 has brought about additional uncertainties to the Group's operating environment and may impact the Group's operations and financial position. As of the date of this report, the Group are not aware of employees diagnosed or suspected of being infected. The Group has been closely monitoring the impact from the Covid-19 Pandemic on the Group's businesses and has commenced to put in place various contingency measures. These contingency measures include but not limited to communicating with distributors and farmers online to ensure the normal operation of business; obtaining the road traffic status in various regions in the PRC regularly and arranging the logistics plan in advance; using the logistics services offered by its e-commerce platform, Fertex, to enhance the efficiency in organizing logistics vehicles and reduce transportation costs; focusing on the prevention of the Covid-19 Pandemic to ensure the production entities are operating at optimal level (except for the Hubei region which was severely affected by the Covid-19 Pandemic).

AUDITOR

As approved in the relevant annual general meetings of the Company, KPMG was appointed as auditor of the Company since the year ended 31 December 2012.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

Qin Hengde
Executive Director and Chief Executive Officer

Hong Kong, 26 March 2020

KPMG

Independent auditor's report to the shareholders of
Sinofert Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Sinofert Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 99 to 195, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing potential impairment of goodwill

Refer to note 18 to the consolidated financial statements and the accounting policies in note 2(m)(ii).

The Key Audit Matter	How the matter was addressed in our audit
Goodwill attributable to Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary in the fertilizer industry acquired by the Group, amounted to RMB 531million as at 31 December 2019. Management determined the recoverable amounts of the cash-generating units ("CGUs") to which the goodwill was allocated by means of discounted cash flow forecasts prepared for each of these CGUs. Management's impairment assessment involves significant judgment, particularly in determining estimated selling prices, selling quantities and the discount rates applied, all of which can be inherently uncertain. We identified assessing potential impairment of goodwill of Sinochem Yunlong as a key audit matter because determining the key impairment assumptions involves a significant degree of management judgment and may be subject to management bias.	Our audit procedures to assess potential impairment of goodwill included the following: • assessing management's identification of CGUs and the allocation of assets and liabilities to each CGU with reference to the requirements of the prevailing accounting standards; • discussing future operating plans with management and comparing the estimated revenue and profit used in the discounted cash flow forecasts with the approved budget; • engaging our internal valuation specialists to assist us in assessing the impairment assessment methodology adopted and the discount rates used in the discounted cash flow forecasts by performing recalculations with market and other external available information derived from companies in the similar industries; • evaluating the sensitivity analysis prepared by management for each of the key assumptions, including estimated selling prices and selling quantities, adopted in the discounted cash flow forecasts and considering the possibility of error or management bias; • performing a retrospective review of last year's impairment assessment and comparing the forecast data with the current year's results to assess the reliability of management's forecasting process; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.

Revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies in note 2(w).

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue is principally generated from the sale of potash fertilizer, nitrogen fertilizer, phosphate fertilizer and compound fertilizer. The timing of revenue recognition depends on the terms of individual sales transactions and revenue is generally recognized when fertilizers are collected by the customers from the Group's premises or when the products are delivered to the location designated by customers, which is taken to be the point in time when the control of the goods have passed to customers. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk that revenue could be recorded in an incorrect period or could be subject to manipulation in order to achieve financial targets and expectations.	Our audit procedures to assess the recognition of revenue included the following: • understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the Group's systems which govern the revenue recognition; • inspecting sales contracts with customers on a sample basis to understand and assess the terms and conditions therein which may affect the recognition of revenue; • comparing sales transactions recorded around the year end with the underlying goods delivery notes to assess if the related revenue had been recognized in the appropriate accounting period; and • identifying manual journal entries with specific risk criteria relating to revenue which were raised during the year, enquiring of management the reasons for such adjustments and inspecting underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG
Certified Public Accountants

8th Floor,
Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in RMB)

	Note	2019 *RMB'000*	2018 *RMB'000* *(Note)*
Revenue	*4(a)*	**22,950,942**	22,996,328
Cost of sales		**(20,865,294)**	(21,083,401)
Gross profit		**2,085,648**	1,912,927
Other income and gains	*5*	**236,176**	312,221
Selling and distribution expenses		**(816,015)**	(906,281)
Administrative expenses		**(648,406)**	(634,745)
Other expenses and losses		**(59,031)**	(66,342)
Profit from operations		**798,372**	617,780
Share of results of associates		**20,361**	17,669
Share of results of joint ventures		**(290)**	28,315
Loss on liquidation of an associate		**(49)**	–
Gain on liquidation of a joint venture		**2,319**	–
Finance costs	*6*	**(170,388)**	(212,632)
Profit before taxation	*7*	**650,325**	451,132
Income tax	*8(a)*	**(5,993)**	37,833
Profit for the year		**644,332**	488,965
Profit for the year attributable to:			
– Owners of the Company		**615,767**	460,486
– Non-controlling interests		**28,565**	28,479
		644,332	488,965

For the year ended 31 December 2019
(Expressed in RMB)

	Note	2019 *RMB'000*	2018 *RMB'000* *(Note)*
Profit for the year		**644,332**	488,965
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		**(82,106)**	(27,804)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**36,614**	99,976
Other comprehensive income for the year	*9*	**(45,492)**	72,172
Total comprehensive income for the year		**598,840**	561,137
Total comprehensive income attributable to:			
– Owners of the Company		**570,275**	532,658
– Non-controlling interests		**28,565**	28,479
		598,840	561,137
Earnings per share			
Basic and diluted (RMB)	*13*	**0.0877**	0.0656

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 109 to 195 form part of these financial statements. Details of dividends payable to equity shareholders of the Company for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019
(Expressed in RMB)

	Note	As at 31 December 2019 RMB'000	2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	14	2,394,497	2,474,431
Lease prepayments	15	–	474,636
Right-of-use assets	16	455,754	–
Mining rights	17	513,113	546,176
Goodwill	18	850,429	843,442
Interests in associates	19	532,880	516,384
Interests in joint ventures	20	354,828	413,989
Other equity securities	21	390,570	498,495
Prepayments for acquisition of property, plant and equipment		59,664	61,564
Deferred tax assets	35	68,914	57,322
Other long-term assets	22	614,767	23,350
		6,235,416	5,909,789
Current assets			
Inventories	23	5,375,220	5,554,467
Trade and bills receivables	24	405,681	534,717
Other receivables and prepayments	25	1,900,960	2,337,747
Loans to related parties	26	920,000	1,970,000
Lease prepayments	15	–	13,854
Other financial assets	27	400,000	197,725
Time deposits		302,500	500,000
Cash and cash equivalents	28	1,333,998	589,130
		10,638,359	11,697,640

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2019
(Expressed in RMB)

		As at 31 December	
	Note	2019 *RMB'000*	2018 *RMB'000* *(Note)*
Current liabilities			
Trade and bills payables	*29*	**3,385,773**	3,143,134
Contract liabilities	*30*	**2,263,578**	2,937,545
Other payables	*31*	**679,316**	794,135
Interest-bearing borrowings	*32*	**–**	3,085,385
Short-term commercial paper	*33*	**2,400,000**	–
Lease liabilities	*34*	**23,308**	–
Tax liabilities		**13,305**	13,872
		8,765,280	9,974,071
Net current assets		**1,873,079**	1,723,569
Total assets less current liabilities		**8,108,495**	7,633,358
Non-current liabilities			
Lease liabilities	*34*	**1,043**	–
Deferred income		**130,132**	73,075
Deferred tax liabilities	*35*	**183,591**	215,322
Other long-term liabilities		**92,329**	103,982
		407,095	392,379
NET ASSETS		**7,701,400**	7,240,979

At 31 December 2019
(Expressed in RMB)

	Note	As at 31 December 2019 RMB'000	2018 RMB'000 (Note)
CAPITAL AND RESERVES			
Issued equity	36	**5,887,384**	5,887,384
Reserves		**1,863,461**	1,455,865
Total equity attributable to owners of the Company		**7,750,845**	7,343,249
Non-controlling interests		**(49,445)**	(102,270)
TOTAL EQUITY		**7,701,400**	7,240,979

The consolidated financial statements on pages 99 to 195 were approved and authorized for issue by the board of directors on 26 March 2020 and are signed on its behalf by:

Qin Hengde
Director

Harry Yang
Director

Note: The Group has initiallly applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 109 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Expressed in RMB)

		Attributable to owners of the Company										
	Note	Issued equity RMB'000	Capital and other reserve RMB'000 (note a)	Statutory reserve RMB'000 (note b)	Contributed surplus RMB'000 (note c)	Fair value reserve (non-recycling) RMB'000 (note d)	Special reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Accumulated losses RMB'000 (note g)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Adjusted balance at 1 January 2018		8,267,384	732,329	366,484	–	27,614	60,752	(623,704)	(1,933,144)	6,897,715	(211,318)	6,686,397
Profit for the year		–	–	–	–	–	–	–	460,486	460,486	28,479	488,965
Other comprehensive income for the year		–	–	–	–	(27,804)	–	99,976	–	72,172	–	72,172
Total comprehensive income for the year		–	–	–	–	(27,804)	–	99,976	460,486	532,658	28,479	561,137
Maintenance and production fund	*e*	–	–	–	–	–	4,677	–	(4,677)	–	–	–
Dividend declared		–	–	–	–	–	–	–	–	–	(6,555)	(6,555)
Capital injection to a subsidiary through the conversion of shareholder's loans		–	(87,124)	–	–	–	–	–	–	(87,124)	87,124	–
Transfer from share premium to contributed surplus		(2,380,000)	–	–	2,380,000	–	–	–	–	–	–	–
Offset the accumulated losses		–	–	–	(471,480)	–	–	–	471,480	–	–	–
Balance at 31 December 2018 and 1 January 2019		5,887,384	645,205	366,484	1,908,520	(190)	65,429	(523,728)	(1,005,855)	7,343,249	(102,270)	7,240,979
Profit for the year		–	–	–	–	–	–	–	615,767	615,767	28,565	644,332
Other comprehensive income for the year		–	–	–	–	(82,106)	–	36,614	–	(45,492)	–	(45,492)
Total comprehensive income for the year		–	–	–	–	(82,106)	–	36,614	615,767	570,275	28,565	598,840
Maintenance and production fund	*e*	–	–	–	–	–	5,275	–	(5,275)	–	–	–
Dividend declared		–	–	–	(138,419)	–	–	–	–	(138,419)	–	(138,419)
Capital injection to a subsidiary, only by the Group	*37*	–	(24,260)	–	–	–	–	–	–	(24,260)	24,260	–
Balance at 31 December 2019		5,887,384	620,945	366,484	1,770,101	(82,296)	70,704	(487,114)	(395,363)	7,750,845	(49,445)	7,701,400

Notes:

a. Capital and other reserve comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of shares issued by the holding companies as consideration for the Group restructuring transactions in previous years; contributions from/distributions to the ultimate holding company, Sinochem Group Co., Ltd. ("Sinochem Group", established in the People's Republic of China (the "PRC")); the difference between the carrying amount of non-controlling interests acquired and the fair value of consideration paid; and the share of the investee's net assets changes, other than profit or loss or other comprehensive income and distributions received.

b. Statutory reserve comprises reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations on foreign investment enterprise established in the PRC, the Company's PRC subsidiaries are required to transfer a portion of their profit after income tax to the reserve fund, until the accumulated amount of the fund reaches 50% of their registered capital. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC. Reserve fund and enterprise expansion fund may be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors.

c. Contributed surplus may be used to declare or pay a dividend or make a distribution by the Company in accordance with the Companies Act 1981 of Bermuda.

d. Fair value reserve (non-recycling) comprises the cumulative net change in the fair value, net of tax, of equity investments designated at fair value through other comprehensive income (FVOCI) under HKFRS 9 that are held at the end of reporting period.

e. Special reserve comprises the fund received which can only be utilized for energy saving and emission reduction projects, and the maintenance and production fund appropriated/utilized in accordance to relevant PRC regulations on certain enterprises.

f. Exchange reserve comprises all foreign currency differences arising from the translation of the financial statements presented in any currencies other than RMB which are dealt with in accordance with the accounting policies as set out in note 2(x).

g. The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 109 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(Expressed in RMB)

	2019 *RMB'000*	2018 *RMB'000* *(Note)*
Operating activities		
Profit before taxation	650,325	451,132
Adjustments for:		
Share of results of associates	(20,361)	(17,669)
Share of results of joint ventures	290	(28,315)
Dividend income from listed equity securities	(5,080)	(4,347)
Write-off of payables	(10,653)	(553)
Release of deferred income	(12,943)	(13,488)
Interest income from related parties	(73,776)	(38,971)
Interest income from time deposits	(6,571)	(8,243)
Other interest income	(55,210)	(157,326)
Fair value changes of financial assets	–	(1,305)
Finance costs	170,388	212,632
Loss on liquidation of an associate	49	–
Gain on liquidation of a joint venture	(2,319)	–
Depreciation of property, plant and equipment	239,251	258,447
Depreciation of right-of-use assets	35,388	–
Amortization of lease prepayments	–	13,242
Amortization of mining rights	33,063	32,901
Amortization of other long-term assets	7,001	11,378
Impairment loss on property, plant and equipment	13,563	–
Impairment of trade and bills receivables	5,319	1,528
(Reversal of) impairment of other receivables and prepayments	(1,518)	5,622
Impairment of prepayments for acquisition of property, plant and equipment	–	400
Loss/(gain) on disposal of property, plant and equipment	6,106	(7,206)
Expenditure of separation and hand-over of water/power/gas supply and property management facilities to entities designated by local government	–	29,192
Write-down of inventories	8,559	12,235
Operating cash flows before movements in working capital	980,871	751,286
Decrease/(increase) in inventories	178,352	(102,712)
Decrease/(increase) in trade and bills receivables	145,389	(252,373)
Decrease/(increase) in other receivables and prepayments	469,556	(415,205)
Increase in deferred income	70,000	150
Increase/(decrease) in trade and bills payables	244,511	(328,051)
Decrease in other payables and contract liabilities	(737,377)	(447,824)
Cash generated from/(used in) operations	1,351,302	(794,729)
Income tax paid	(24,064)	(12,600)
Net cash generated from/(used in) operating activities	1,327,238	(807,329)

For the year ended 31 December 2019
(Expressed in RMB)

	2019 RMB'000	2018 RMB'000 (Note)
Investing activities		
Purchase of property, plant and equipment	(761,220)	(464,178)
Proceeds from disposal of property, plant and equipment	5,335	11,966
Acquisition of other long-term assets	(6,930)	(21,418)
Additions of prepaid lease payments	(41,168)	(219)
Consideration received from liquidation of an associate	3,816	5,634,759
Consideration received from liquidation of a joint venture	61,190	–
Loans to related parties	(1,238,000)	(1,970,000)
Loans repaid from related parties	2,288,000	670,000
Payment for purchase of other financial assets	(3,200,000)	(9,886,420)
Proceeds from sale of other financial assets	2,997,725	9,690,000
Placement of time deposits	(437,070)	(500,000)
Proceeds from withdrawal of time deposits	634,570	–
Interest received from related parties	73,776	38,971
Interest income from time deposits and other interest income	66,072	152,987
Dividends received from listed equity securities	5,080	4,347
Net cash generated from investing activities	451,176	3,360,795

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019
(Expressed in RMB)

	Notes	2019 RMB'000	2018 RMB'000 (Note)
Financing activities			
Repayment of bank and other loans	28(b)	(5,382,162)	(5,386,328)
Proceeds from new bank and other loans	28(b)	5,324,662	3,821,828
Payment for purchase of bonds	28(b)	–	(470,000)
Repayment of bonds	28(b)	(3,027,885)	–
Proceeds from short-term commercial paper	28(b)	3,400,000	–
Repayment of short-term commercial paper	28(b)	(1,000,000)	–
Capital element of lease rentals paid	28(b)	(22,027)	–
Interest element of lease rentals paid	28(b)	(1,403)	–
Other Interest paid	28(b)	(183,837)	(218,298)
Dividends paid		(143,078)	(2,911)
Net cash used in financing activities		(1,035,730)	(2,255,709)
Net increase in cash and cash Equivalents		742,684	297,757
Cash and cash equivalents at 1 January	28(a)	589,130	286,816
Effect of foreign exchange rate changes		2,184	4,557
Cash and cash equivalents at 31 December	28(a)	1,333,998	589,130

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 109 to 195 form part of these financial statements.

1 GENERAL

Sinofert Holdings Limited (the "Company", together with its subsidiaries hereinafter collectively referred to as the "Group") is a limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Sinochem Hong Kong (Group) Company Limited ("Sinochem HK", incorporated in Hong Kong) and its ultimate holding company is Sinochem Group. These entities do not produce financial statements available for public use. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The Group is mainly engaged in manufacturing and selling of fertilizers and related products. Details of the Company's principal subsidiaries are set out in note 43.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as other equity securities (see note 2(g));

– financial instruments classified as other financial assets (see note 2(g)); and

– bills receivable.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Company and subsidiaries incorporated in Hong Kong have their functional currency in Hong Kong dollars ("HK$") and subsidiaries established in the PRC, Macao Special Administrative Region ("Macao SAR") and Republic of Singapore ("Singapore") have their functional currencies in RMB and United States dollars ("US$"), respectively. As majority of the Group's operation are conducted by the Group's subsidiaries in the PRC, the consolidated financial statements are presented in RMB.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to office premises as disclosed in note 41(b). For an explanation of how the Group applies lessee accounting, see note 2(k)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.50%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(i) Lessee accounting and transitional impact (continued)

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 41(b) as at 31 December 2018 to the opening balance for lease liabilities recognized as at 1 January 2019:

	1 January 2019 *RMB'000*
Operating lease commitments at 31 December 2018	63,729
Less: commitments relating to leases exempt from capitalization:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019 and leases of low value assets	(16,282)
– Non-lease components	(3,516)
	43,931
Less: total future interest expenses	(1,673)
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognized at 1 January 2019	42,258

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(i) Lessee accounting and transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognized at an amount equal to the amount recognized for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *RMB'000*	Capitalization of operating lease contracts *RMB'000*	Carrying amount at 1 January 2019 *RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	530,748	530,748
Lease prepayments (non-current)	474,636	(474,636)	–
Total non-current assets	**5,909,789**	**56,112**	**5,965,901**
Lease prepayments (current)	13,854	(13,854)	–
Current assets	**11,697,640**	**(13,854)**	**11,683,786**
Lease liabilities (current)	–	26,853	26,853
Current liabilities	**9,974,071**	**26,853**	**10,000,924**
Net current assets	**1,723,569**	**(40,707)**	**1,682,862**
Total assets less current liabilities	**7,633,358**	**15,405**	**7,648,763**
Lease liabilities (non-current)	–	15,405	15,405
Total non-current liabilities	**392,379**	**15,405**	**407,784**
Net assets	**7,240,979**	**–**	**7,240,979**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(ii) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. The impact on profit before tax is not significant during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions, and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group choose to measure any non-controlling interests at fair value of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and 2(m)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are included in the Group's consolidated profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the Group's other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses (ECLs) model to such other long-term interests where applicable).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

A decrease in interest in an equity-accounted investee while maintaining equity accounting can result from a dilution. The Group's policy is to recognize any gain or loss on dilution directly in equity, except when impairment indicators exist then the Group first assesses and recognizes any impairment loss in accordance with the accounting polices described in note 2(m)(ii).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 39(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(w)(iv)).

– FVOCI-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in note 2(w)(iii).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses(see note 2(m)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives other than mining structures (see note 2(j)).

The estimated useful lives of property, plant and equipment are as follows:

Category	Years of depreciation
Buildings	20 – 30 years
Plant, machinery and equipment	10 – 14 years
Motor vehicles	8 years
Furniture and fixtures	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(m)(ii)). Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(j) Mining rights

Mining rights are stated at cost less accumulated amortization and impairment losses (see note 2(m)(ii)) and are amortized based on the units of production method utilizing only recoverable reserves as the depletion base.

(k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected to separate lease components from non-lease components and allocated the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The right-of-use asset recognized when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes and 2(m)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Leased assets *(continued)*

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with note 2(w)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(k)(i), then the Group classifies the sub-lease as an operating lease.

(l) Activators

Activators held for use in the production of goods are stated at cost less subsequent accumulated amortization and accumulated impairments losses. Amortization is provided using the straight-line method over the estimated usefule lives of 2 – 10 years.

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for ECLs on financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties).

Other financial assets measured at fair value, including equity and debt securities measured at FVPL and equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and lease receivables (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and lease receivables (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– prepayments for acquisition of property, plant and equipment;

– right-of-use assets;

– mining rights;

– other long-term assets;

– goodwill;

– investments in associates and joint ventures; and

– investment in subsidiaries in the Company’s statement of financial position.

If any such indication exists, the asset’s recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units ("CGUs") (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the moving weighted-average method, and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

The Group take advantage of practical expedient in paragraph 94 of HKFRS15 and recognize the incremental costs of obtaining a contract as an expense if the amortization of the asset is less than one year.

(o) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see note 2(m)(i)) except for bills receivable.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(m)(i).

(q) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see note 2(w)). A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see note 2(o)).

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see note 2(y)).

(t) Employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognized when the customers collect the goods from the Group's premises or when the products are delivered to the location designated by customers. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

The goods can only be returned due to product quality issue. Because the number of return is extremely low in previous years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are earned.

(iii) Dividends

– Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (continued)

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(m)(i)).

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss over the useful life of the related asset on a reasonable and systematic manner.

(x) Translation of foreign currencies

The financial statements are presented in RMB, which is the currency of the primary economic environment in which the major entities of the Group operate. The functional currency of the Company is HKD.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognized at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognized in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortized.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is apart, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies which are described in note 2, the directors of the Company have made judgments, estimates and assumptions concerning the future that have a significant risk of material adjustments on the amounts recognized in the consolidated financial statements within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 18.

Provision of inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. The directors of the Company reassess these estimates at the end of each reporting period. The carrying amount of inventories was disclosed in note 23.

Impairment on property, plant and equipment

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of property, plant and equipment was disclosed in note 14.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the sales value of fertilizers and related products. Disaggregation of revenue from contracts with customers by major products is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Sales of potash fertilizer	3,842,063	4,501,587
– Sales of nitrogen fertilizer	5,336,601	4,873,967
– Sales of compound fertilizer	5,852,289	5,891,047
– Sales of phosphate fertilizer	5,004,695	4,919,815
– Sales of monocalcium/dicalcium phosphate ("MCP/DCP")	879,096	832,486
– Others	2,036,198	1,977,426
	22,950,942	22,996,328

No revenue from a single external customer accounts for 10% or more of the Group's revenue during both years.

The Group takes advantage of practical expedient in paragraph 121 of HKFRS 15 and does not disclose the remaining performance obligation as all of the Group's sales contracts have an original expected duration of less than one year.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group's operating segments based on information reported to the chief operating decision maker ("CODM") for the purpose of resource allocation and performance assessment are as follows:

- Basic fertilizers: sourcing and trading of straight fertilizers such as nitrogen, phosphate and potash
- Distribution: building of distribution channels, sourcing and selling of compound fertilizers and new type of fertilizer
- Production: production and sales of fertilizers and MCP/DCP, and also including share of results of associates held by subsidiaries in Production segment

(i) Segment results

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned made by each segment without taking into account of unallocated share of results of associates and joint ventures, unallocated expenses/income and finance costs in relation to the unallocated interest-bearing borrowings and short-term commercial paper. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at market prices between group entities.

Given the production and trading of fertilizers are closely linked, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and resources allocation to the operating segments. Such information was not reviewed by the CODM. As such, no segment assets and liabilities are presented.

During the year, the Group has changed the performance assessment method for each reportable segment. Allocation of operating expenses, share of results of associates and joint ventures and also interest income and expenses has been changed based on the new performance assessment method. Comparative segment information has been adjusted to conform with current year's presentation.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

2019	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue					
External revenue	14,589,804	6,243,042	2,118,096	–	22,950,942
Internal revenue	970,700	12,599	1,412,424	(2,395,723)	–
Segment revenue	15,560,504	6,255,641	3,530,520	(2,395,723)	22,950,942
Share of results of associates	–	–	2,381	–	2,381
Segment profit	493,717	107,577	265,110	–	866,404
Unallocated share of results of associates					17,980
Unallocated share of results of joint ventures					(290)
Unallocated expenses					(372,582)
Unallocated income					138,813
Profit before taxation					650,325

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

2018	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue					
External revenue	14,985,255	5,739,675	2,271,398	–	22,996,328
Internal revenue	487,138	2,978	1,566,390	(2,056,506)	–
Segment revenue	15,472,393	5,742,653	3,837,788	(2,056,506)	22,996,328
Share of results of associates	–	–	(605)	–	(605)
Segment profit	466,018	68,695	80,408	–	615,121
Unallocated share of results of associates					18,274
Unallocated share of results of joint ventures					28,315
Unallocated expenses					(340,673)
Unallocated income					130,095
Profit before taxation					451,132

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information

2019	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit:					
Impairment of trade and bills receivables	(5,322)	–	3	–	(5,319)
Reversal of impairment of other receivables and prepayments	–	–	1,518	–	1,518
Impairment loss on property, plant and equipment	–	–	(13,563)	–	(13,563)
Depreciation and amortization	(7,878)	(51,049)	(252,175)	(3,601)	(314,703)
Write-down of inventories	(3,886)	(1,995)	(2,678)	–	(8,559)
Loss on disposal of property, plant and equipment	(134)	(83)	(5,889)	–	(6,106)
Write-off of payables	3,034	2,289	5,330	–	10,653

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information (continued)

2018	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit:					
Impairment of trade receivables	(66)	–	(1,462)	–	(1,528)
Impairment of other receivables and prepayments	–	–	(5,622)	–	(5,622)
Impairment of prepayments for acquisition of property, plant and equipment	–	–	(400)	–	(400)
Depreciation and amortization	(846)	(31,023)	(280,646)	(3,453)	(315,968)
Write-down of inventories	(2,641)	(5,263)	(4,331)	–	(12,235)
(Loss)/gain on disposal of property, plant and equipment	(28)	219	7,015	–	7,206
Write-off of payables	240	240	73	–	553

(iii) Geographical information

The Group's operations are mainly located in Mainland China and Macao SAR.

Information about the Group's revenue from its operations from external customers is presented based on the customers' location of incorporation/establishment. Information about the Group's non-current assets other than other equity securities and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2019 **RMB'000**	2018 *RMB'000*	**2019** **RMB'000**	2018 *RMB'000*
Mainland China	**22,125,075**	22,032,834	**5,771,562**	5,349,145
Others	**825,867**	963,494	**4,370**	4,827
	22,950,942	22,996,328	**5,775,932**	5,353,972

5 OTHER INCOME AND GAINS

	2019 *RMB'000*	2018 *RMB'000*
Rental income	12,281	11,198
Dividend income from listed equity securities	5,080	4,347
Interest income from related parties	73,776	38,971
Interest income from time deposits	6,571	8,243
Other interest income	55,210	157,326
Fair value changes of other financial assets	–	1,305
Government grants *(Note)*	17,046	12,909
Sales of semi-product, raw materials and scrapped materials	20,332	18,759
Release of deferred income	12,943	13,488
Insurance claims received	4,771	6,552
Write-off of payables	10,653	553
Others	17,513	38,570
	236,176	312,221

Note: Government grants mainly comprised payments from the government to support the business development of the Group entities in the PRC.

6 FINANCE COSTS

	2019 RMB'000	2018 RMB'000 (Note a)
Interest on borrowings	187,397	213,452
Interest on lease liabilities *(Note a)*	1,403	–
Less: interest expense capitalized *(Note b)*	(18,412)	(820)
	170,388	212,632

Notes:

a The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

b The capitalization rate used to determine the amount of borrowing costs eligible for capitalization related to construction of production lines is 4.02% (2018: 5.00%) for the year ended 31 December 2019.

7 PROFIT BEFORE TAXATION

	Note	2019 RMB'000	2018 RMB'000
Director's emoluments	*10*	**13,977**	10,378
Other staff benefits	*a*	**746,471**	697,357
Total employee benefits expenses		**760,448**	707,735
Depreciation charge			
– owned property, plant and equipment		**239,251**	258,447
– right-of-use assets		**35,388**	–
Amortization of lease prepayments		**–**	13,242
Amortization of mining rights		**33,063**	32,901
Amortization of other long-term assets		**7,001**	11,378
Auditors' remuneration		**3,850**	4,599
Operating lease charge – minimum lease payments previously classified as operating leases under HKAS 17	*b*	**–**	47,590
Expense relating to short-term leases and leases of low value assets, which not included in the measurement of lease liabilities		**23,693**	–
Loss/(gain) on disposal of property, plant and equipment		**6,106**	(7,206)
Loss on liquidation of an associate		**49**	–
Gain on liquidation of a joint venture		**(2,319)**	–
Impairment of trade and bills receivables		**5,319**	1,528
Fair value changes of financial assets		**–**	(1,305)
(Reversal of) impairment of other receivables and prepayments		**(1,518)**	5,622
Impairment of prepayments for acquisition of property, plant and equipment		**–**	400
Write-down of inventories	*c*	**8,559**	12,235
Impairment loss on property, plant and equipment	*14*	**13,563**	–
Expenditure of separation and hand-over of water/power/ gas supply and property management facilities to entities designated by local government		**–**	29,192
Foreign exchange loss/(gain)		**1,803**	(8,430)

Notes:

a Contributions to retirement benefit scheme included in other staff benefits for the year ended 31 December 2019 amounted to RMB68,189,000 (2018: RMB67,942,000).

b The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognize the depreciation of right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

c During the year ended 31 December 2019, write-down of inventories amounting to approximately RMB8,559,000 (2018: RMB12,235,000) is recorded in other expenses and losses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2019 *RMB'000*	2018 *RMB'000*
Provision for the year		
PRC Enterprise Income Tax	(23,497)	(14,352)
Over-provision in prior years		
PRC Enterprise Income Tax	–	213
Deferred tax		
Origination and reversal of temporary differences	17,504	51,972
	(5,993)	37,833

(i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group is not subject to income tax in Bermuda and the BVI.

(ii) The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

(iii) The provision for the PRC Enterprise Income Tax is based on the statutory rate of 25% on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year, except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.

(iv) A subsidiary of the Group incorporated in Macao SAR is exempted from income tax.

(v) The provision for Singapore Profits Tax for 2019 is calculated at 17% of the estimated assessable profits for the year.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(b) Reconciliation between tax (expense)/credit and accounting profit at applicable tax rates:

	2019 *RMB'000*	2018 *RMB'000*
Profit before taxation	650,325	451,132
Tax calculated at the applicable tax rate of 25%	(162,581)	(112,783)
Effect of different income tax rates	58,071	45,294
Tax effect of non-deductible expenses	(9,352)	(14,970)
Tax effect of non-taxable income	255	38
Tax effect of share of results of associates	5,090	4,417
Tax effect of share of results of joint ventures	(72)	7,079
Effect of prior year unrecognized tax losses and deductible temporary differences utilized/recognized during the year	106,085	118,004
Effect of tax losses and deductible temporary difference not recognized	(3,489)	(9,459)
Over-provision in prior years	–	213
Income tax (expense)/credit for the year	(5,993)	37,833

9 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2019			2018		
	Before-tax amount *RMB'000*	Tax benifit *RMB'000*	Net-of-tax amount *RMB'000*	Before-tax amount *RMB'000*	Tax benifit *RMB'000*	Net-of-tax amount *RMB'000*
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	(107,925)	25,819	(82,106)	(27,804)	–	(27,804)
Exchange differences on translation of financial statements of overseas subsidiaries	36,614	–	36,614	99,976	–	99,976
	(71,311)	25,819	(45,492)	72,172	–	72,172

10 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2019

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(Note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Executive directors					
Mr. QIN Hengde	–	2,168	6,994	49	9,211
Mr. Harry YANG	–	1,083	1,234	50	2,367
Mr. FENG Mingwei (appointed on 25 February 2020)	–	–	–	–	–
Non-executive directors					
Mr. YANG Lin *(Note b)*	–	–	–	–	–
Mr. ZHANG Wei (resigned on 11 January 2019)	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	474	–	–	–	474
Mr. LU Xin	474	–	–	–	474
Mr. TSE Hau Yin, Aloysius	558	–	–	–	558
	1,506	3,251	8,228	99	13,084
Rental expenses for directors					
Mr. QIN Hengde					386
Mr. Harry YANG					507
					13,977

10 DIRECTORS' EMOLUMENTS (CONTINUED)

2018

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(Note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Chairman and Non-executive director					
Mr. ZHANG Wei *(Note b)* (resigned on 11 January 2019)	–	–	–	–	–
Executive directors					
Mr. QIN Hengde	–	1,827	4,228	50	6,105
Mr. Harry YANG	–	1,058	1,117	55	2,230
Non-executive directors					
Mr. YANG Lin *(Note b)*	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	412	–	–	–	412
Mr. LU Xin	379	–	–	–	379
Mr. TSE Hau Yin, Aloysius	465	–	–	–	465
	1,256	2,885	5,345	105	9,591
Rental expenses for directors					
Mr. QIN Hengde					300
Mr. Harry YANG					487
					10,378

10 DIRECTORS' EMOLUMENTS *(CONTINUED)*

Notes:

a. The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the years ended 31 December 2019 and 2018.

b. Mr. Yang Lin, being non-executive director of the Company, had agreed to waive his director's fee for the year ended 31 December 2019. The amount waived by Mr. Yang Lin was HK$443,000 (equivalent to approximately RMB390,000).

Directors' fee waived by, Mr. Zhang Wei and Mr. Yang Lin were HK$385,000 each (equivalent to approximately RMB326,000) for the year ended 31 December 2018.

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2018: two) were directors of the Company, whose emoluments are disclosed in note 10. The emoluments of the remaining three (2018: three) individuals were as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries and other benefits	**3,093**	3,114
Performance related incentive payment	**5,580**	5,587
Retirement benefits scheme contribution	**150**	166
	8,823	8,867

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS (CONTINUED)

The emoluments were within the following bands:

	2019 *Number of individuals*	2018 *Number of individuals*
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	1
	3	3

12 DIVIDENDS

(a) Dividends payable to equity shareholders of the Group attributable to the year

	2019 *RMB'000*	2018 *RMB'000*
Proposed final dividend of HK$0.0294, equivalent to approximately RMB0.0263 per share (2018: HK$0.0224, equivalent to approximately RMB0.0196 per share)	**185,000**	137,868

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

12 DIVIDENDS(CONTINUED)

(b) Dividends payable to equity shareholders of the Group attributable to the previous financial year, approved and paid during the year

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.0224 per share (2018: nil).	**138,419**	–

13 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2019	2018
	RMB'000	*RMB'000*
Earnings attributable to owners of the Company		
Earnings for the purpose of basic/diluted earnings per share	**615,767**	460,486

	2019	2018
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic/diluted earnings per share	**7,024,456**	7,024,456

The Group has no dilutive ordinary shares outstanding during the years ended 31 December 2019. Therefore, there was no difference between basic and diluted earnings per share.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture & fixtures *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2018	2,517,909	3,131,677	62,992	319,668	327,677	6,359,923
Exchange realignment	15	–	75	66	–	156
Additions	31,010	13,822	9,514	10,914	334,796	400,056
Transfer from construction in progress	30,621	105,253	154	6,203	(142,231)	–
Disposals	(1,488)	(18,555)	(12,006)	(2,696)	(1,818)	(36,563)
Others	(12,464)	(1,378)	(156)	(43)	(89,980)	(104,021)
At 31 December 2018	2,565,603	3,230,819	60,573	334,112	428,444	6,619,551
At 1 January 2019	2,565,603	3,230,819	60,573	334,112	428,444	6,619,551
Exchange realignment	6	–	26	27	–	59
Additions	56,404	32,508	6,966	7,458	553,650	656,986
Transfer from construction in progress	25,704	3,854	–	81,913	(111,471)	–
Disposals	(10,039)	(29,720)	(4,951)	(4,456)	(181)	(49,347)
Others *(Note (iii))*	(814,447)	(1,126,760)	(76)	(112,950)	–	(2,054,233)
At 31 December 2019	1,823,231	2,110,701	62,538	306,104	870,442	5,173,016
Accumulated depreciation and impairment						
At 1 January 2018	(1,235,442)	(2,453,139)	(38,332)	(186,644)	(18,855)	(3,932,412)
Exchange realignment	–	–	(57)	(48)	–	(105)
Charge for the year	(87,519)	(143,504)	(6,368)	(21,056)	–	(258,447)
Disposals	463	17,479	11,395	2,466	–	31,803
Others	12,464	1,378	156	43	–	14,041
At 31 December 2018	(1,310,034)	(2,577,786)	(33,206)	(205,239)	(18,855)	(4,145,120)
At 1 January 2019	(1,310,034)	(2,577,786)	(33,206)	(205,239)	(18,855)	(4,145,120)
Exchange realignment	–	–	(20)	(23)	–	(43)
Charge for the year	(77,860)	(131,594)	(6,751)	(23,046)	–	(239,251)
Impairment loss *(note (ii))*	(5,650)	(7,758)	–	(155)	–	(13,563)
Disposals	6,366	27,296	2,567	1,677	–	37,906
Others *(note (iii))*	455,685	1,020,848	52	104,967	–	1,581,552
At 31 December 2019	(931,493)	(1,668,994)	(37,358)	(121,819)	(18,855)	(2,778,519)
Net book value						
At 31 December 2019	891,738	441,707	25,180	184,285	851,587	2,394,497
At 31 December 2018	1,255,569	653,033	27,367	128,873	409,589	2,474,431

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(i) Certain items of property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 32(a).

(ii) In view of the planned termination of the production of certain compound fertilizer products, the Group planned to replace the related compound fertilizer production line. The carrying amount of this production line of RMB13,563,000 was fully impaired.

(iii) The government of Fuling District in Chongqing ("the Government") and the Group entered into a relocation agreement ("the relocation agreement") on 6 August 2019. Pursuant to the relocation agreement, Sinochem Chongqing Fuling Chemicals Fertilizer Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, will relocate its factories in Nananpu, demolish the buidings, restore the land and return it to the Government no later than June 2021. In return, the Government will compensate the losses of Sinochem Fuling arising from the relocation, with a cap of RMB 1billion, after the Government receives the land.

Sinochem Fuling started demolishing the factory in November 2019. The carrying amounts of the related property, plant and equipment and also the land lease prepayment were reclassified as other long-term assets. Based on current estimation, the directors of the Company are of the view that the compensation receivable is sufficient to cover the expected loss of the Group and hence no impairment provision is made over these other long-term assets as at 31 December 2019.

15 LEASE PREPAYMENTS

	2018 *RMB'000* *(Note)*
Cost	
At 1 January	676,091
Additions	219
At 31 December	676,310
Accumulated amortization	
At 1 January	(174,578)
Charge for the year	(13,242)
At 31 December	(187,820)
Net book value	
At 31 December	488,490
Analysis for reporting purposes as	
Current assets	13,854
Non-current assets	474,636
	488,490

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The carrying amount of the lease prepayment is reclassified as right-of-use assets as at 1 January 2019.

16 RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying assets is as follows:

	Properties leased for own use, carried at depreciated cost *RMB'000*	Lease prepayments *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2019	42,258	676,310	718,568
Additions	4,120	41,168	45,288
Others *(Note)*	–	(114,006)	(114,006)
At 31 December 2019	46,378	603,472	649,850
Accumulated depreciation			
At 1 January 2019	–	(187,820)	(187,820)
Charge for the year	(22,456)	(12,932)	(35,388)
Others *(Note)*	–	29,112	29,112
At 31 December 2019	(22,456)	(171,640)	(194,096)
Net book value			
At 31 December 2019	23,922	431,832	455,754
At 1 January 2019	42,258	488,490	530,748

Note: As explained in note 14, certain lease prepayments were reclassified as other long-term assets during the year.

During the year, additions to right-of-use assets were RMB45,288,000. This amount included the purchase of land use right of RMB41,168,000, and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

17 MINING RIGHTS

	2019 *RMB'000*	2018 *RMB'000*
Cost		
At 1 January and 31 December	**768,140**	768,140
Accumulated amortization		
At 1 January	**(221,964)**	(189,063)
Charge for the year	**(33,063)**	(32,901)
At 31 December	**(255,027)**	(221,964)
Net book value		
At 31 December	**513,113**	546,176

18 GOODWILL

	2019 *RMB'000*	2018 *RMB'000*
Cost		
At 1 January	**843,442**	829,075
Exchange adjustments	**6,987**	14,367
Carrying amount		
At 31 December	**850,429**	843,442

18 GOODWILL (CONTINUED)

Impairment testing on goodwill

For the purposes of impairment testing, goodwill has been allocated to the CGUs of the related segments as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Basic fertilizers	**193,274**	189,045
Distribution	**90,952**	88,962
Production		
– Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong")	**531,074**	531,074
– Others	**35,129**	34,361
	850,429	843,442

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations by estimating the future cash flows expected from these CGUs. The key assumptions for the value in use calculations are those regarding the discount rates, including estimated selling prices and selling quantities used in the cash flow forecasts. Cash flow forecasts are based on past practices and expectations of future changes in the market. The directors of the Company estimate pre-tax discount rates that reflect current market assessment of the time value of money and the risks specific relating to the CGUs. Cash flow forecasts of each CGU are derived from financial budgets of 2020 approved by the directors of the Company. The growth rates for the first 3 years from 2020 are based on the relevant CGUs past performance and management's expectation for the market development and for the following years are based on steady growth rates.

18 GOODWILL (CONTINUED)

The key assumptions used in the value in use calculation for related CGUs include:

	Basic fertilizers and Distribution 2019	Production 2019
Pre-tax discount rate	**9.4%**	**12.9%**
Steady growth rate for the following years	**3.0%**	**3.0%**

	Basic fertilizers and Distribution 2018	Production 2018
Pre-tax discount rate	8.9%	12.8%
Steady growth rate for the following years	3.0%	4.9%

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the year ended 31 December 2019.

19 INTERESTS IN ASSOCIATES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Unlisted shares, at cost	**384,094**	386,604
Share of profits, net of dividends	**148,786**	129,780
	532,880	516,384

All of the associates are accounted for using the equity method in the consolidated financial statements.

19 INTERESTS IN ASSOCIATES (CONTINUED)

The particulars of principal associates of the Group are as follows:

Name of entites	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activities
				2019	2018	
Guizhou Xinxin Industrial Holdings Group Co., Ltd. ("Xinxin Group") 貴州鑫新實業控股集團有限責任公司	Incorporated	The PRC	RMB20,000,000	**24%**	24%	Production and sales of phosphate rock
Guizhou Xinxin Coal Chemical Co., Ltd. 貴州鑫新煤化工有限責任公司	Incorporated	The PRC	RMB20,000,000	**24%**	24%	Production and sales of coal
Qingdao Ganghua Logistics Co., Ltd. ("Qingdao Ganghua") 青島港華物流有限公司*(Note)*	Incorporated	The PRC	RMB10,000,000	**–**	25%	Provision of logistics services
Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") 陽煤平原化工有限公司	Incorporated	The PRC	RMB560,296,500	**36.75%**	36.75%	Production and sales of fertilizers

Note: On 20 October 2019, the shareholders' meeting of Qingdao Ganghua passed a resolution to liquidate the company and distribute all net assets to its shareholders. Pursuant to which the Group received the distribution of approximately RMB3,816,000 and recognized a loss on liquidation of an associate of RMB49,000.

The directors of the Company are of the opinion that no associates are individually material to the Group. Aggregate information of associates that are not individually material are listed below:

	2019 *RMB'000*	2018 *RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**532,880**	516,384
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operation	**20,361**	17,669
Total comprehensive income	**20,361**	17,669

20 INTERESTS IN JOINT VENTURES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Unlisted shares, at cost	**374,330**	425,330
Share of profits, net of dividends	**(19,502)**	(11,341)
	354,828	413,989

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. The following list contains only the particulars of major joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

Name of entites	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activities
				2019	2018	
Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") 雲南三環中化化肥有限公司	Incorporated	The PRC	RMB800,000,000	**40%**	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu") 甘肅甕福化工有限責任公司	Incorporated	The PRC	RMB245,650,000	**30%**	30%	Sales and manufacturing of fertilizers
Hainan Zhongsheng Agricultural Technology Co., Ltd. ("Hainan Zhongsheng") 海南中盛農業科技有限公司 *(Note)*	Incorporated	The PRC	RMB100,000,000	**–**	51%	Sales of pesticides

Note: On 25 June 2019, the shareholders' meeting of Hainan Zhongsheng passed a resolution to liquidate the company and distribute all net assets to its shareholders. Pursuant to which the Group received the distribution of RMB61,190,000 and recognsied a gain on liquidation of a joint venture of RMB2,319,000.

20 INTERESTS IN JOINT VENTURES (CONTINUED)

The directors of the Company are of the opinion that no joint ventures are individually material to the Group. Aggregate information of joint ventures that are not individually material are listed below:

	2019	2018
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**354,828**	413,989
Aggregate amounts of the Group's share of those joint ventures'		
(Loss)/profit from continuing operation	**(290)**	28,315
Total comprehensive income	**(290)**	28,315

21 OTHER EQUITY SECURITIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Equity securities designated at FVOCI (non-recycling)		
– Listed equity securities	**107,281**	111,929
– Unlisted equity securities	**283,289**	386,566
	390,570	498,495

22 OTHER LONG-TERM ASSETS

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Activators		23,279	23,350
Relocation for Sinochem Fuling	14	591,488	–
		614,767	23,350

23 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	As at 31 December 2019 RMB'000	2018 RMB'000
Fertilizer merchandise and finished goods	4,728,319	5,075,757
Raw materials	538,507	383,419
Work in progress	59,388	52,949
Consumables	49,006	42,342
	5,375,220	5,554,467

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	20,865,294	21,083,401
Write-down of inventories	8,559	12,235
	20,873,853	21,095,636

24 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**39,289**	46,743
Less: loss allowance *(Note (b))*	**(2,693)**	(2,674)
	36,596	44,069
Bills receivable	**374,385**	490,648
Less: loss allowance *(Note (b))*	**(5,300)**	–
	369,085	490,648
Total trade and bills receivables, net of loss allowance	**405,681**	534,717

As at 31 December 2019, the bills receivable that the Group has endorsed or discounted but not matured are RMB1,741,731,000 (2018: RMB2,260,675,000).

(a) Aging analysis of trade and bills receivables

The Group allows a credit period of 0 – 90 days to its trade customers. As at the end of the reporting period, the aging analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**225,025**	338,987
More than 3 months but within 6 months	**98,118**	129,899
More than 6 months but within 12 months	**69,558**	63,581
Over 12 months	**12,980**	2,250
	405,681	534,717

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

24 TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Loss allowance of trade and bills receivables

The movement in the loss allowance in respect of trade and bills receivables during the year is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Balance at 1 January	2,674	1,212
Impairment recognized	5,319	1,528
Write-off of uncollectible receivables	–	(66)
Balance at 31 December	7,993	2,674

25 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2019 *RMB'000*	2018 *RMB'000*
Other receivables	214,389	185,614
Prepayments	1,375,142	1,845,393
Deductible input VAT	359,831	358,107
Less: loss allowance *(Note)*	(48,402)	(51,367)
Other receivables and prepayments	1,900,960	2,337,747

Note: The movement in the loss allowance in respect of other receivables during the year is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Balance at 1 January	51,367	45,773
(Reversal of) impairment recognized	(1,518)	5,622
Write-off of uncollectible receivables	(1,447)	(28)
Balance at 31 December	48,402	51,367

26 LOANS TO RELATED PARTIES

		As at 31 December	
	Note	**2019** *RMB'000*	2018 *RMB'000*
Sinochem Agriculture Holdings Limited ("Sinochem Agriculture")	*(i)*	**250,000**	800,000
Sinochem Corporation		**–**	500,000
Yangmei Pingyuan	*(ii)*	**670,000**	670,000
Balance at 31 December		**920,000**	1,970,000

Notes:

(i) The entrusted loans lent to Sinochem Agriculture, a subsidiary of Sinochem Group, through Sinochem Finance Co., Ltd. ("Sinochem Finance") of RMB250,000,000 are guaranteed by Sinochem Corporation, bear fixed interest rate of 4.2% (2018: 4.385%) per annum and due for repayment on 24 December 2020.

(ii) The entrusted loans lent to Yangmei Pingyuan through Sinochem Finance are unsecured, bear annual interest rate of 6.1% (2018: 6.1%) per annum and are repayable within one year.

27 OTHER FINANCIAL ASSETS

Other financial assets as at 31 December 2019 represent structured deposits which are accounted as fair value through profit or loss.

28 CASH AND BANK BALANCES

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2019 *RMB'000*	2018 *RMB'000*
Cash in hand	**12**	19
Cash at bank	**1,333,986**	589,111
Cash and cash equivalents in the consolidated statement of financial position and cash flows	**1,333,998**	589,130

28 CASH AND BANK BALANCES (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

	Bank and other loans RMB'000 (Note 32)	Bonds RMB'000 (Note 32)	Short-term commercial paper RMB'000 (Note 33)	Lease liabilites RMB'000 (Note 34)	Interest payable RMB'000	Total RMB'000
At 31 December 2018	57,500	3,027,885	–	–	27,184	3,112,569
Impact on initial application of HKFRS 16	–	–	–	42,258	–	42,258
At 1 January 2019	57,500	3,027,885	–	42,258	27,184	3,154,827
Changes from financing cash flows:						
Proceeds from bank and other loans	5,324,662	–	–	–	–	5,324,662
Repayment of bank and other loans	(5,382,162)	–	–	–	–	(5,382,162)
Repayment of bonds	–	(3,027,885)	–	–	–	(3,027,885)
Proceeds from short-term commercial paper	–	–	3,400,000	–	–	3,400,000
Repayment of short-term commercial paper	–	–	(1,000,000)	–	–	(1,000,000)
Capital element of lease rentals paid	–	–	–	(22,027)	–	(22,027)
Interest element of lease rentals paid	–	–	–	(1,403)	–	(1,403)
Other Interest paid	–	–	–	–	(183,837)	(183,837)
Total changes from financing cash flows	(57,500)	(3,027,885)	2,400,000	(23,430)	(183,837)	(892,652)
Other changes:						
Increase in lease liabilities from entering into new leases during the year	–	–	–	4,120	–	4,120
Interest expenses *(Note 6)*	–	–	–	1,403	187,397	188,800
At 31 December 2019	–	–	2,400,000	24,351	30,744	2,455,095

28 CASH AND BANK BALANCES (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other loans *RMB'000* *(Note 32)*	Bonds *RMB'000* *(Note 32)*	Interest payable *RMB'000*	Total *RMB'000*
At 1 January 2018	1,622,000	3,495,535	34,380	5,151,915
Changes from financing cash flows:				
Proceeds from bank and other loans	3,821,828	–	–	3,821,828
Repayment of bank and other loans	(5,386,328)	–	–	(5,386,328)
Payment for purchase of bonds	–	(470,000)	–	(470,000)
Interest paid	–	–	(218,298)	(218,298)
Total changes from financing cash flows	(1,564,500)	(470,000)	(218,298)	(2,252,798)
Other change:				
Interest and changes on borrowings *(Note 6)*	–	2,350	211,102	213,452
At 31 December 2018	57,500	3,027,885	27,184	3,112,569

28 CASH AND BANK BALANCES (CONTINUED)

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 *RMB'000*	2018 *RMB'000* *(Note)*
Within operating cash flows	23,693	47,590
Within investing cash flows	41,168	219
Within financing cash flows	23,430	–
	88,291	47,809

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the group as a lessee were classified as operating activities in the consolidated statement of cash flows. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 28(b)) and classified as financing cash outflows. The adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. Under the modified retrospective approach, the comparative information is not restated.

These amounts relate to the following:

	2019 *RMB'000*	2018 *RMB'000*
Lease rentals paid	47,123	47,590
Prepaid lease payments	41,168	219
	88,291	47,809

29 TRADE AND BILLS PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**1,367,060**	1,264,013
Bills payable	**2,018,713**	1,879,121
Trade and bills payables	**3,385,773**	3,143,134

As at 31 December 2019, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**2,934,579**	2,347,968
More than 3 months but within 6 months	**353,709**	676,689
More than 6 months but within 12 months	**34,576**	31,184
Over 12 months	**62,909**	87,293
	3,385,773	3,143,134

30 CONTRACT LIABILITIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contract liabilities		
Sales of goods		
– Amounts due to customer for advance received	**2,263,578**	2,937,545

Movements in contract liabilities

	2019	2018
	RMB'000	*RMB'000*
Balance at 1 January	**2,937,545**	3,481,748
Decrease in contract liabilities as a result of recognizing revenue during the year that was included in the contract liabilities at the beginning of the period	**(2,797,978)**	(3,334,120)
Increase in contract liabilities as a result of receiving forward sales deposits as at the year end	**2,124,011**	2,789,917
Balance at 31 December	**2,263,578**	2,937,545

31 OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Payroll payables	**51,017**	70,013
Interest payables	**30,744**	27,184
Dividends payable	**25,437**	30,096
Payables for purchase of property, plant and equipment and land use rights	**144,715**	243,401
Other taxes payables	**46,499**	77,160
Others	**380,904**	346,281
	679,316	794,135

32 INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Bank and other loans		
Borrowings from Sinochem Finance *(Note 42(b))*	–	57,500
Bonds *(Note 1)*		
Principal amount	–	3,030,000
Less: unamortized transaction costs	–	(2,115)
	–	3,027,885
	–	3,085,385

Notes:

1 On 25 November 2009, a PRC subsidiary of the Group issued corporate bonds with an aggregate principal amount of RMB2.5 billion with a maturity of 10 years at a fixed interest rate of 5% per annum. The repayment of the bonds is guaranteed by Sinochem Group. The Group has repaid the bonds during 2019.

On 22 July 2016, a PRC subsidiary of the Group issued the first tranche of the medium-term notes of RMB1 billion, with a maturity of three years at a rate of 3.5% per annum. The Group has repaid the medium-term notes during 2019.

2 At 31 December 2019, certain property, plant and equipment and lease prepayment with carrying values of approximately RMB4,582,000 (2018: RMB2,658,000) were pledged to secure banking facilities granted to the Group.

As at 31 December 2018, all of the interest-bearing borrowings are fixed-rate borrowings carried at amortized cost and repayable within one year.

The ranges of effective interest rates on the Group's borrowings are as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Fixed-rate borrowings	–	2.10% ~ 5.00%

32 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Unutilized banking facilities

As at the end of the reporting period, the Group has the following unutilized banking facilities:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Expiring within 1 year	**17,181,803**	13,007,900
Expiring beyond 1 year	**5,226,633**	5,902,466
	22,408,436	18,910,366

33 SHORT-TERM COMMERCIAL PAPER

Short-term commercial paper as at 31 December 2019 represents super & short-term commercial paper which are issued by a PRC subsidiary of the Group with principal of RMB1 billion, RMB0.6 billion and RMB0.8 billion on 17 July 2019, 22 August 2019 and 25 October 2019, respectively. All of the short-term commercial papers bear a interest rate of 2.95% per annum.

34 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 *(Note)*	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**23,308**	**23,741**	26,853	27,457
After 1 year but within 2 years	**991**	**1,014**	15,405	16,474
After 2 years but within 5 years	**52**	**54**	–	–
	1,043	**1,068**	15,405	16,474
	24,351	**24,809**	42,258	43,931
Less: total future interest expenses		**(458)**		(1,673)
Present value of lease liabilities		**24,351**		42,258

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

35 DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred tax assets	**62,856**	57,322
Deferred tax liabilities	**(183,591)**	(215,322)
	(114,677)	(158,000)

(a) Deferred tax assets and liabilities recognized:

Deferred tax assets and liabilities recognized and movements thereon during the current and prior years are as follows:

	Fair value adjustment on business combination	Revaluation of other equity securities	Unrealized profits in inventories	Impairments	Tax losses	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	(207,912)	(19,762)	237	11,124	1,778	4,563	(209,972)
Credited/(charged) to profit or loss for the year	12,352	–	1,804	–	38,603	(787)	51,972
At 31 December 2018 and 1 January 2019	(195,560)	(19,762)	2,041	11,124	40,381	3,776	(158,000)
Credited/(charged) to profit or loss for the year	11,969	–	(1,094)	(520)	7,925	(776)	17,504
Credited to reserves for the year	–	25,819	–	–	–	–	25,819
At 31 December 2019	(183,591)	6,057	947	10,604	48,306	3000	(114,677)

By reference to financial budgets, the management of the Group believes that there will be sufficient future taxable profits or taxable temporary differences available in the future to utilize the deferred tax assets.

35 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

(b) Deferred tax assets not recognized

No deferred tax assets were recognized on the tax losses of approximately RMB7,250,124,000 as of 31 December 2019 (2018: RMB7,810,827,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable. Unrecognized tax losses of RMB150,319,000 has expired during 2019. Included in the unrecognized tax losses are losses of RMB6,620,362,000 that will expire before 31 December 2024 (2018: RMB7,187,943,000 that will expire before 31 December 2023). Other losses may be carried forward indefinitely.

(c) Deferred tax liabilities not recognized

Under the tax laws of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability to control the timing of the reversal of temporary differences associated with the investment in subsidiaries. Furthermore, the Company has determined that those profits earned by its PRC subsidiaries will not be distributed to overseas investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits of PRC subsidiaries of RMB412,620,000 at 31 December 2019 (2018: RMB301,730,000).

36 ISSUED EQUITY

(a) The movements in issued equity of the Group:

	2019 ***RMB'000***	2018 *RMB'000*
Issued shares of HK$0.10 each and share premium		
At 1 January	**5,887,384**	8,267,384
Transfer from share premium to contributed surplus	**–**	(2,380,000)
At 31 December	**5,887,384**	5,887,384

The amount of issued equity of the Group as at 31 December 2019 and 2018 includes share capital and share premium in the consolidated statement of financial position.

Pursuant to a special resolution passed by the Company's shareholders at the annual general meeting held on 20 December 2018, the share premium account of the Company was reduced by amount of HK$2,500,000,000 (equivalent to approximately RMB2,380,000,000) with the credit arising therefrom being credited to the contributed surplus account of the Company.

36 ISSUED EQUITY (CONTINUED)

(b) The movements in the share capital of the Company are as follows:

	2019 Number of shares '000	2019 Nominal value HK$'000	2019 Equivalent to RMB'000	2018 Number of shares '000	2018 Nominal value HK$'000	2018 Equivalent to RMB'000
Authorized:						
Ordinary shares of HK$0.10 each	80,000,000	8,000,000		80,000,000	8,000,000	
Ordinary shares of the Company, issued and fully paid:						
At 1 January and at 31 December	7,024,456	702,446	691,750	7,024,456	702,446	691,750

	Number of shares	Nominal Value HK$'000
Preference shares		
Authorized:		
Preference shares of HK$1,000,000 each	316	316,000

No preference shares were issued at 31 December 2019 and 2018.

37 ACQUISITION OF NON-CONTROLLING INTERESTS

In January 2019, Sinochem Fertilizer Company Limited ("Sinochem Fertilizer") injected RMB270,000,000 of capital into Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd.("Sinochem Ecological"), increasing its interests from 80% to 98%.

	2019 RMB'000
Carrying amount of non-controlling interests before capital injection	(20,704)
Carrying amount of non-controlling interests after capital injection	3,556
A decrease in equity attributable to owners of the Company	(24,260)

38 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from previous years.

The capital structure of the Group consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of the Company comprising issued equity, retained profits and other reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0 – 90 days from the date of billing.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	As at 31 December 2019		
	Expected loss rate *%*	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 1 year	**0.04%**	**35,146**	**(15)**
More than 1 year but within 2 years	**14.63%**	**3**	**(1)**
More than 2 years but within 3 years	**23.65%**	**207**	**(49)**
More than 3 years	**66.82%**	**3,933**	**(2,628)**
		39,289	**(2,693)**

	As at 31 December 2018		
	Expected loss rate *%*	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 1 year	0.07%	41,848	(29)
More than 1 year but within 2 years	11.45%	221	(25)
More than 2 years but within 3 years	35.51%	3	(1)
More than 3 years	56.07%	4,671	(2,619)
		46,743	(2,674)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

(b) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of credit borrowings.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2019, the Group has available unutilized bank loan facilities of approximately RMB22,408,436,000 (2018: approximately RMB18,910,366,000). Details are set out in note 32(b).

The following table details the Group's remaining contractual maturity for its financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

The table includes both interest and principal cash flows based on the contractual undiscounted payments of the Group's financial liabilities at the end of the reporting period.

	2019 Contractual undiscounted cash outflow				
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 year but less than 3 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Trade and bills payables	3,385,773	–	–	3,385,773	3,385,773
Other payables	679,316	–	–	679,316	679,316
Short-term commercial paper	2,428,514	–	–	2,428,514	2,400,000
Lease liabilities *(Note)*	23,741	1,014	54	24,809	24,351
	6,517,344	1,014	54	6,518,412	6,489,440

	2018 Contractual undiscounted cash outflow within 1 year or on demand *RMB'000*	Carrying amount *RMB'000*
Trade and bills payables	3,143,134	3,143,134
Other payables	794,135	794,135
Borrowings	3,203,117	3,085,385
	7,140,386	7,022,654

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see notes 32, 33 and 34 for details of the borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China and the fluctuation of London Interbank offered Rate.

Sensitivity analysis

Since the Group has no variable-rate borrowings at the end of the reporting period, no sensitivity analysis about interest rates risk is prepared.

(d) Currency risk

Several subsidiaries of the Group have foreign currency transactions, which expose the Group to currency risk. Since the monetary items denominated in foreign currencies are not significant, the Group considers the currency risk was insignificant and does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

Monetary assets and monetary liabilities denominated in foreign currency including mainly cash and bank balances, trade payables, other payables and borrowings that are subject to currency risk at the end of the reporting period are as follows, differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded:

	Liabilities		Assets	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**542,524**	864,201	**77,942**	131,673

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2019			2018		
	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits *RMB'000*	Effect on other components of equity *RMB'000*	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits *RMB'000*	Effect on other components of equity *RMB'000*
US$	10%	(46,458)	–	10%	(73,253)	–
	(10%)	46,458	–	(10%)	73,253	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results of year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2018.

(e) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk in equity securities is mainly concentrated on equity instruments issued by companies operating in fertilizer industry sector listed on the Stock Exchange. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective listed equity instruments increased/(decreased) of 10% (2018: 10%), the Group's other comprehensive income after tax and other components of consolidated equity would have increased/decreased by approximately RMB10,728,000 (2018: RMB11,193,000) as a result of the increase/ decrease in fair value of equity securities. The analysis is performed on the same basis for 2018.

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in thevaluation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Listed equity securities	107,281	107,281	–	–
Unlisted equity securities	283,289	–	–	283,289
Other financial assets	400,000	–	400,000	–
Bills receivable	369,085	–	–	369,085
Total	1,159,655	107,281	400,000	652,374

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Listed equity securities	111,929	111,929	–	–
Unlisted equity securities	386,566	–	–	386,566
Other financial assets	197,725	–	–	197,725
Bills receivable	490,648	–	–	490,648
Total	1,186,868	111,929	–	1,074,939

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which the occur.

Information about Level 3 fair value measurement

- The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non-marketability of the equity securities and price to book value of the investee.

- The fair values of bills receivable and other financial assets which represents the wealth management products are measured using discounted cash flow method.

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019	2018
	RMB'000	*RMB'000*
Unlisted equity securities:		
At 1 January	**386,566**	386,566
Changes in fair value during the year	**(103,277)**	–
At 31 December	**283,289**	386,566

	2019	2018
	RMB'000	*RMB'000*
Other financial assets		
At 1 January	**197,725**	–
Payment for purchase	**–**	9,886,420
Proceeds from sale	**(197,725)**	(9,690,000)
Changes in fair value recognized in profit or loss during the period	**–**	1,305
	–	197,725

	2019	2018
	RMB'000	*RMB'000*
Bills receivable		
At 1 January	**490,648**	190,638
Net (decrease)/increase	**(121,563)**	300,010
At 31 December	**369,085**	490,648

(ii) Fair values of financial assets and liabilities carried at other than fair value

The directors of the Company consider there is no significant difference between the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements and their fair values.

40 CONTINGENT LIABILITIES

At 31 December 2019 and 2018, the Group had no material contingent liabilities.

41 COMMITMENTS

(a) Capital commitment

	2019 *RMB'000*	2018 *RMB'000*
Contracted but not provided for		
– Property, plant and equipment	278,169	188,350
Authorized but not contracted for		
– Property, plant and equipment	1,425,975	1,211,375
	1,704,144	1,399,725

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 *RMB'000*
Within 1 year	37,536
More than 1 year, but within 5 years	26,193
	63,729

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognized as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(k), and the details regarding the Group's future lease payments are disclosed in note 34.

42 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2019 and 2018 were as follows:

Ultimate holding company
Sinochem Group
(中國中化集團有限公司)

Indirect holding company
Sinochem Corporation
(中國中化股份有限公司)

Immediate holding company
Sinochem Hong Kong (Group) Co., Ltd.
(中化香港(集團)有限公司)

Fellow subsidiaries
Sinochem (United Kingdom) Limited
(中化(英國)有限公司)

Beijing Chemsunny Property Co., Ltd.
(北京凱晨置業有限公司)

Sinochem Finance
(中化集團財務有限責任公司)

China Foreign Economy and Trade Trust Co., Ltd.
(中國對外經濟貿易信託有限公司)

Sinochem Agriculture
(中化現代農業有限公司)

A subsidiary of a shareholder with significant influence over the Company
PCS Sales (USA) Inc.

Associates
Xinxin Group
(貴州鑫新實業控股集團有限責任公司)

Yangmei Pingyuan
(陽煤平原化工有限公司)

Chongqing Fuling Zhongwang Agricultural Material Co., Ltd.
(重慶市涪陵區眾旺農資有限公司)

Joint ventures
Three Circles – Sinochem
(雲南三環中化化肥有限公司)

Gansu Wengfu
(甘肅甕福化工有限責任公司)

Associate of the ultimate holding company
Qinghai Salt Lake Industry Co., Ltd.
(青海鹽湖工業股份有限公司)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year:

	2019 *RMB'000*	2018 *RMB'000*
Sales of fertilizers to		
Ultimate holding company	**–**	1,744
Joint ventures	**224,422**	264,056
Associates	**5,780**	41,942
An associate of the ultimate holding company	**86,077**	450,225
Fellow subsidiaries	**417,523**	87,814
	733,802	845,781
Purchases of fertilizers from		
Ultimate holding company	**58,558**	200,690
Joint ventures	**1,234,036**	1,156,184
Associates	**26,165**	152,766
An associate of the ultimate holding company	**969,562**	1,213,783
A subsidiary of a shareholder with significant influence over the Company	**699,645**	548,999
	2,987,966	3,272,422
Import service fee payable to		
A fellow subsidiary	**15,872**	15,243
Rental and management fee payable to		
Immediate holding company	**2,451**	2,348
A fellow subsidiary	**27,564**	26,434
	30,015	28,782
Loans to related parties		
An associate	**670,000**	670,000
A fellow subsidiary	**568,000**	800,000
Indirect holding company	**–**	500,000
	1,238,000	1,970,000

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) **In addition to the transactions disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year: (Continued)**

	2019 *RMB'000*	2018 *RMB'000*
Repayments of loans to		
An associate	670,000	670,000
A fellow subsidiary	1,118,000	–
Indirect holding company	500,000	–
	2,288,000	670,000
Interest income from related parties		
An associate	38,413	37,539
A fellow subsidiary	34,080	1,103
Indirect holding company	1,283	329
	73,776	38,971
Loans from a fellow subsidiary	3,650,000	2,224,500
Repayments of loans from related parties		
A fellow subsidiary	3,707,500	2,284,000
Ultimate holding company	–	1,500,000
	3,707,500	3,784,000
Interest expenses for loans from related parties and service fee		
A fellow subsidiary	11,073	12,183
Ultimate holding company	–	13,832
	11,073	26,015
Purchases of financial assets from		
A fellow subsidiary	–	296,420
Proceeds received from sales of financial assets to		
A fellow subsidiary	197,725	100,000
Interests income of financial assets and deposits from		
Fellow subsidiaries	13,711	24,817

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) As at the end of the reporting period, the Group had the following material balances with its related parties:

	2019 RMB'000	2018 RMB'000
Trade receivables	1,369	8,617
Other receivables and prepayments	225,683	298,731
Trade and bills payables	1,499,325	494,522
Other payables	76,608	48,112
Contract liabilities	27,755	2,811
Loans to related parties	920,000	1,970,000
Borrowings-due within one year *(Note)*	–	57,500
Other financial assets	–	197,725
Time deposits	302,500	500,000
Cash and cash equivalents	646,912	458,834

Note: Borrowings from Sinochem Finance have a maturity period within 1 year, bear fixed interest rates from 2.10% to 3.92% per annum.

(c) Compensation of key management personnel

Key management personnel are Group's directors and senior executives. Remuneration paid or payable to the directors was disclosed in note 10, and was determined by the Remuneration Committee according to individual performance and relevant comparable market statistics. Remuneration paid or payable to senior executives is as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	3,858	4,497
Performance related incentive payment	6,316	6,943
Retirement benefits scheme contribution	200	271
	10,374	11,711

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel (continued)

The emoluments of senior executives were within the following bands:

	2019	2018
	Number of individuals	*Number of individuals*
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	1
	4	6

(d) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by Chinese government ("government-related entities"). In addition, the Group itself is part of a larger group of companies under Sinochem Group which is controlled by Chinese government. Apart from the transactions with Sinochem Group and fellow subsidiaries and other related parties as disclosed above, the Group also conducts business with other government-related entities. The directors of the Company consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

At the end of the reporting period, the Group had the following significant balances with other government-related entities in the PRC.

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade and bills receivables	**151**	10,643
Other receivables and prepayments	**574,464**	718,143
Trade and bills payables	**406,444**	322,467
Other payables	**3,582**	2,701
Contract liabilities	**125,149**	206,592

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions/balances with other state-controlled entities in the PRC (continued)

During the year, the Group had the following significant transactions with other government-related entities as follows:

	2019	2018
	RMB'000	*RMB'000*
Sales of fertilizers	**1,243,689**	2,265,009
Purchases of fertilizers	**4,694,381**	4,938,617

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks that are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Company are of the opinion that separate disclosure would not be meaningful.

Except for amounts and transactions disclosed above, the directors of the Company are of the opinion that transactions with other government-related entities are not significant to the Group's operations.

(Expressed in RMB unless otherwise indicated)

43 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2019 and 2018:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2019	2018	
Directly held:					
China Fertilizer (Holdings) Co., Ltd.	British Virgin islands ("BVI")	10,002 shares, US$1 each	100%	100%	Investment holding
Calorie Ltd.	Hong Kong	34,000 shares, HK$1 each	100%	100%	Investment holding
Indirectly held:					
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	10,002 shares, US$1 each	100%	100%	Investment holding
Sinochem Fertilizer（中化化肥有限公司）*(Note a)*	The PRC	RMB10,600,000,000	100%	100%	Fertilizer trading
Dohigh Trading Limited（敦尚貿易有限公司）	Hong Kong	15,000,000 shares, HK$1 each	100%	100%	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited（中化化肥澳門離岸商業服務有限公司）	Macao SAR	100,000 shares, MOP1 each	100%	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd. *(Note c)*（綏芬河新凱源貿易有限公司）	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. *(Note c)*（福建中化智勝化肥有限公司）	The PRC	RMB47,000,000	53.19%	53.19%	Sales and manufacturing of fertilizers

(Expressed in RMB unless otherwise indicated)

43 PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2019 and 2018 (continued):

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group 2019	Proportion ownership interest held by the Group 2018	Principal activities
Sinochem Fuling *(Note c)* (中化重慶涪陵化工有限公司)	The PRC	RMB148,000,000	**60%**	60%	Sales and manufacturing of fertilizers
Sinochem Yunlong *(Note c)* (中化雲龍有限公司)	The PRC	RMB500,000,000	**100%**	100%	Sales and manufacturing of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd. *(Note b)* (中化(煙台)作物營養有限公司)	The PRC	US$1,493,000	**100%**	100%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd. *(Note c)* (滿洲里凱明化肥有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Sinochem Jilin Changshan Chemical Co., Ltd. *(Note c)* (中化吉林長山化工有限公司)	The PRC	RMB2,838,650,000	**98.16%**	98.16%	Sales and manufacturing of fertilizers
Sinochem Ecological *(Note c)* (中化農業生態科技(湖北)有限公司)	The PRC	RMB300,000,000	**98%**	80%	Sales and manufacturing of fertilizers
Sinochem Shandong Fertilizer Co., Ltd. *(Note c)* (中化山東肥業有限公司)	The PRC	RMB100,000,000	**51%**	51%	Sales and manufacturing of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd. *(Note c)* (中化肥美特農資連鎖有限公司)	The PRC	RMB100,000,000	**100%**	100%	Fertilizer retailing

(Expressed in RMB unless otherwise indicated)

43 PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2019 and 2018 (continued):

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group 2019	2018	Principal activities
Sinochem Hainan Crop Science and Technology Co., Ltd. *(Note c)* (中化海南作物科技有限公司)	The PRC	RMB200,000,000	100%	100%	Sales of fertilizers
Pingyuan County Xinglong Textile Co., Ltd. *(Note c)* (平原縣興龍紡織有限公司)	The PRC	RMB15,000,000	75%	75%	Sales and manufacturing of textiles
Sinochem Agriculture (Xinjiang) Biotech Co., Ltd. *(Note c)* (中化農業(新疆)生物科技有限公司)	The PRC	RMB31,800,000	100%	100%	Sales and manufacturing of fertilizers
Sinochem Agriculture(Linyi) R&D Centre Co., Ltd. *(Note c)* (中化農業(臨沂)研發中心有限公司)	The PRC	RMB122,300,000	100%	100%	Development of agriculture products
Sinochem Fertilizer Singapore PTE. LTD.	Singapore	SGD6,605,000	100%	100%	Fertilizer trading

Note a: Foreign invested enterprise

Note b: Sino-foreign enterprise

Note c: Domestic company

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

The directors of the Company are of the opinion that none of its subsidiaries has non-controlling interests material to the Group.

44 RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in the Mainland China, Hong Kong and Macao SAR, the Group's certain subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The contribution to fund the retirement benefits of the employees are calculated based on certain percentage of the average employee salary as agreed by local municipal government to the scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contribution under the schemes.

45 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-current assets		
Investments in subsidiaries	**4,572,192**	4,472,153
Amounts due from subsidiaries	**1,920,761**	1,934,358
Right-of-use assets	**709**	–
Other non-current assets	**840,537**	896,719
	7,334,199	7,303,230
Current assets		
Cash and bank balances	**971**	555
Current liabilities	**11,661**	5,110
Net current liabilities	**(10,690)**	(4,555)
Total assets less current liabilities	**7,323,509**	7,298,675
Non-current liabilities	**205**	–
NET ASSETS	**7,323,304**	7,298,675
CAPITAL AND RESERVE		
Issued equity	**5,887,384**	5,887,384
Contributed surplus *(Note (a))*	**1,770,101**	1,908,520
Exchange reserve *(Note (b))*	**(336,458)**	(497,229)
Retained earnings	**2,277**	–
TOTAL EQUITY	**7,323,304**	7,298,675

45 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

(a) Contributed surplus

The Company declared and paid dividend of HKD157,348,000 (equivalent to approximately RMB138,419,000) to equity shareholders of the Group out of the contributed surplus during the year ended 31 December 2019.

(b) Exchange reserve

The increase in the exchange reserve of RMB160,859,000 was due to exchange differences on translation of the Company's financial statements.

46 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Change of shareholding in the Company

Sinochem HK has entered into a share transfer agreement with China Chemical (Shanghai) Agricultural Technology Corporation Ltd., renamed as Syngenta Group Co., Ltd. ("Syngenta Group"), on 5 January 2020, pursuant to which Sinochem HK has agreed to transfer 3,698,660,874 shares held by it in the Company to Syngenta Group or one or more of its affiliate(s), for an aggregate consideration of US$1. The transfer was not yet completed as of the date of these financial statements. Syngenta Group is an indirect wholly-owned subsidiary of China National Chemical Corporation Ltd. which is a PRC wholly state-owned chemical enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Following the completion of the transfer, Syngenta Group (or its affiliate(s), as the case may be) will become the substantial and controlling shareholder of the Company.

(b) Capital injection to Sinochem Fuling

On 16 March 2020, the board of Directors of the Company announced that Sinochem Fertilizer, Sinochem Fuling, the Fuling District State-owned Assets Supervision and Administration Commission of Chongqing("Fuling SASAC"), Chongqing Fuling State-owned Assets Management Group Co., Ltd.（重慶市涪陵國有資產投資經營集團有限公司, "Fuling SAM")) and Suzhou Compound Fertilizer Plant Co., Ltd.（蘇州複合肥廠有限公司）entered into the Agreement ("the Transaction"), pursuant to which (i) Sinochem Fertilizer agreed to convert an amount of RMB700,000,000 in the outstanding shareholder's loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling; and (ii) Fuling SAM, a wholly-owned subsidiary of Fuling SASAC, agreed to subscribe for an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash. Upon completion of the Transaction, the registered capital of Sinochem Fuling will increase from RMB148,000,000 to RMB1,058,000,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Fuling will increase from 60% to 74.56%.The Transaction will be completed by 30 June 2021.

(Expressed in RMB unless otherwise indicated)

46 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(c) The impact of Covid-19 Pandemic

The Covid-19 Pandemic since early 2020 has brought about additional uncertainties to the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the Covid-19 Pandemic on the Group's businesses and has commenced to put in place various contingency measures. These contingency measures include but not limited to communicating with distributors and farmers online to ensure the normal operation of business; obtaining the road traffic status in various regions in the PRC regularly and arranging the logistics plan in advance; using the logistics services offered by its e-commerce platform, Fertex, to enhance the efficiency in organising logistics vehicles and reduce transportation cost; focusing on the prevention of the Covid-19 Pandemic to ensure the productions entities operated at optimal level (except for the Hubei region which was severely affected by the Covid-19 Pandemic).

47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**22,950,942**	22,996,328	17,643,812	14,959,092	26,121,488
Profit/(loss) before tax	**650,325**	451,132	(2,269,946)	(4,817,805)	350,149
Income tax	**(5,993)**	37,833	(10,938)	(4,621)	(147,602)
Profit/(loss) for the year	**644,332**	488,965	(2,280,884)	(4,822,426)	202,547
Profit/(loss) attributable to					
– Owners of the Company	**615,767**	460,486	(2,207,504)	(4,635,885)	220,855
– Non-controlling interests	**28,565**	28,479	(73,380)	(186,541)	(18,308)
	644,332	488,965	(2,280,884)	(4,822,426)	202,547

	At 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**16,873,775**	17,607,429	22,317,633	22,865,093	27,739,029
Total liabilities	**(9,172,375)**	(10,366,450)	(15,690,521)	(14,595,520)	(14,663,108)
Net assets	**7,701,400**	7,240,979	6,627,112	8,269,573	13,075,921

中化化肥控股有限公司
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